CBO'S ANALYSIS OF THE PRESIDENT'S FISCAL YEAR 2000 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

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THURSDAY, MARCH 4, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in Room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Chambliss, Shays, Herger, Smith, Hoekstra, Bass, Gutknecht, Hilleary, Sununu, Pitts, Thornberry, Collins, Wamp, Fletcher, Miller, Spratt, McDermott, Rivers, Minge, Bentsen, Weygand, Clayton, Price, Markey, Kleczka, Clement, Moran, Hooley, Lucas, Holt, and Baldwin.

Chairman KASICH. I have this long statement here, but I don't think I need to do this, because we are here to hear you, not to hear me.

I want to welcome Dr. Crippen to be here this morning. I know he has got a number of things he wants to tell us. And why don't I just stop, not say any more than that. I am glad you are with us. I look forward to your testimony.

And I think Mr. Spratt has got a big statement that—whatever.

Mr. SPRATT. Mr. Chairman, I will be short, but I will say a couple of things, at least, first of all, to welcome Dr. Crippen and say we look forward to working with you, look forward to your testimony today.

Secondly, Mr. Chairman, I understand the projected markup date is March the 17th, and I have written you a letter about some hearings that we think we need to do that are minimally necessary to sort of cover the waterfront of the budget. We may not get them all done. There is defense——

Chairman KASICH. We hope to have defense.

Mr. SPRATT [continuing]. Education, Social Security. I think we ought to at least try to have some hearings on that, and if necessary, to set them up, we will waive the 7-day rule.

Chairman KASICH. We are going to have defense next—we have been struggling to try to get the best person to come in, and with the Secretary being in and out of town, that has been difficult. We are going to have a hearing on that next week. We are looking at whether we want to have both Mr. Thomas and—I was thinking about having Mr. Thomas and Mr. Breaux, but maybe we could have Bruce—we are looking at that, and we would——

Mr. SPRATT. We would like to have the other side of that presented. If Mr. Breaux wants to come out, that is fine.

Chairman KASICH. I would like to get a report maybe on the Commission and then on the Social Security. We have our panel going. And I think we ought to kind of roll that in all year long and let the two, Nick Smith and the Ranking Democrat——

Mr. SPRATT. Lynn Rivers.

Chairman KASICH [continuing]. Lynn Rivers be able to come and give us a report on what they are hearing. But we are going to have—we definitely are going to have a hearing on corporate welfare, but that won't come I doubt before the budget markup. But we are going to try to get in as many as we can, John, even if we have to waive the 7-day rule. And we are working on that, and I will be responsible on that.

Mr. SPRATT. All right.

Chairman KASICH. OK. Sir. Your testimony.

STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. CRIPPEN. You guys have set a terrible precedent. If I talk for more than 30 seconds, it will be excessive. I will be quick.

Mr. Chairman, Congressman Spratt, members of the committee, I am here to share with you our preliminary analysis of the President's budget. It is preliminary because we have more work to do, and it is preliminary because we await further details from the administration on a number of topics.

I understand you hope to begin markup. Now I understand you are commencing on the 17th of March, and I just want you to know we will be ready to assist your markup whenever you are.

Before I begin, I want to note a few minor changes in our baseline since it was constructed in December. We believe the surplus will be slightly larger this year and next because outlays will be slightly lower. The biggest single piece of that is Medicare.

We have made no changes in the economic assumptions or the revenue estimates. The only change we have made is to take the outlays down slightly for the next couple of years, which gives us a slightly larger surplus.

The President's budget, Mr. Chairman, is unusual in several regards. We think it as essentially two and a half budgets: a basic budget, which affects primarily the budget year 2000; a budget contingent on congressional acceptance of the President's Social Security proposals, which, in turn, would trigger more spending and result in more debt; and a half budget, if you will, that includes a number of initiatives for which we have no details. It is only the first, Mr. Chairman—the basic budget we refer to in the testimony and tables as excluding the Social Security framework—for which we have enough detail to provide a truly thorough reestimate of the President's budget.

For the second budget, which we refer to in the tables as including the Social Security framework, we have only the numbers provided in the President's budget documents and cannot reestimate most of those effects. Further, the Social Security framework stretches the budget window to 15 years. Our baseline is 10.

The half budget I referred to, Mr. Chairman, consists of initiatives included in the text of the budget and one included in the State of the Union address, but for which we have neither programmatic details nor numbers. We therefore cannot analyze anything but in the most general terms.

To recap, we have a basic budget, which mostly affects next year; a proposal that uses general fund transfers unrelated to future surpluses to extend the Social Security trust fund, which would trigger additional, non-Social Security spending; and some proposals in addition that we can't evaluate. I plan to discuss our analysis in that order and conclude with the discussion of the effect of the President's various proposals on debt.

Let me start with the basics. Mr. Chairman, in this first chart, let me draw your attention initially to the $30 billion. That is the Congressional Budget Office's [CBO] estimate of the amount by which discretionary outlays will exceed the fiscal year 2000 cap. Look next at the $17 billion figure. That is the amount that the President proposes to offset with mandatory savings, revenues, and the pay-as-you-go [PAYGO] balances—offsets that cannot be scored against discretionary spending under current practices. The administration fully recognizes that $17 billion and its implications and essentially asks you—the Congress—to change the scoring to accept those offsets.

DISCRETIONARY APPROPRIATIONS IN THE PRESIDENT'S BUDGET COMPARED WITH THE CAPS

(In billions of dollars)

	CBO		OMB		CBO Minus OMB	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
President's Budget [1]	$564	$605	$556	$592	$8	$14
Adjusted Caps[1]	542	575	538	574	4	1
Budget Less Adjusted Caps	22	30	18	17	4	13
Proposed Offsets	[2]	[2]	[3]	−18	[3]	[3]
	[3]	[3]	[3]	−1	[3]	[3]

Sources: Congressional Budget Office; Office of Management and Budget.

[1] Includes an upward adjustment for mass transit budget authority that is not subject to the caps.
[2] To be estimated.
[3] Not available.

The rest of the $30 billion is largely differences in estimates of outlays, the lion's share of which is in defense. CBO believes the administration's estimate for defense outlays is too low by some $10 billion—$6 billion for faster spending on prior obligations, and $4 billion because some of their changes produce no savings or are estimated incorrectly. The differences in nondefense outlays—some $4 billion—stem mostly from the timing of spectrum auctions and assumptions about highway spending.

The bottom line thus far, Mr. Chairman: CBO estimates that the President's budget exceeds the current discretionary caps by $30 billion, roughly half from offsets that would not count under current law and half from our higher outlay estimates.

Turning to the next chart, we can examine the effect of the President's budget on the baseline surpluses. Focus on the column, please, for 2000. Our estimates of the basic policies are a total of a negative $20 billion—a net of $30 billion in additional discretionary outlays, minus $11 billion in revenue increases, and small changes in other outlays. The $11 billion in revenue consists of $16 billion in increases, which includes $8 billion in tobacco taxes, and $5 billion in reductions.

CBO ESTIMATES OF THE PRESIDENT'S BUDGET INCLUDING THE SOCIAL SECURITY FRAMEWORK

(In billions of dollars)

	2000	2001	2002	2003	2004
Total budget surplus, CBO baseline	$133	$156	$212	$213	$239
President's proposals:					
Excluding Social Security framework	−20	−7	−14	−17	−15
Social Security framework	−32	−60	−88	−87	−96
Total budget surplus, CBO estimate of President's budget	80	89	110	109	128

Source: Congressional Budget Office.

So the net effect on the surplus of the President's policies is a negative $20 billion. The bottom line is that the President's basic budget reduces the surplus by $20 billion in 2000.

I should note here that we believe the surpluses will be higher than the administration projects in 2000—$16 billion higher because of higher revenues and lower outlays. In all years but 2000, the higher baseline surpluses CBO projects more than offset our estimate of the higher spending proposed by the administration in the basic budget. Remember, we are still on part 1.

The next line on the chart incorporates the President's Social Security framework. The framework consists of several proposals contingent on congressional acceptance of the general fund transfers to Social Security. As we testified last week, traditional budgetary accounting would show the transfers to have no effect on the unified surplus, only on the on-budget and off-budget surpluses. It is the other, nontransfer proposals that appear in the third line called "Social Security framework." They consist of additional discretionary spending, Universal Savings Accounts [USAs], and the purchase of corporate stock to be held by the Social Security trust funds.

Table 7 in the preliminary report provides the detail of what the negative $32 billion consists of. Again, most of these numbers are straight from the President's budget. We do not have the detailed policy that would permit us to reestimate the effects. So the $32 billion is largely adding up the Office of Management and Budget's [OMB] numbers.

I should note that the discretionary spending increase, which is $26 billion of the $60 billion total change in 2001, does not provide any real increase for defense. In fact, the President's budget represents a reduction from the CBO baseline, including emergencies. The increases the administration points to are increases over the President's request for last year, not increases over the baseline.

Most of the remaining reduction in the surplus stems from the purchase of equities ($15 billion in the first year) and USA accounts ($14 billion in the first year).

The last line of the chart summarizes, using current accounting, the effect of the President's budget with the Social Security framework on the unified surplus. The off-budget effect is to virtually double the current-law surplus while creating on-budget deficits for the foreseeable future. Bottom line at this point, Mr. Chairman: the President's budget, including the Social Security framework, reduces the surplus by $52 billion in 2000 and by larger amounts thereafter.

As we see in the next chart, however, it may be appropriate to add back in the value of equity purchases because stocks represent assets that can be redeemed at a future date and because their purchase can have an effect on the economy that is similar to debt reduction.

CBO ESTIMATES OF DEBT HELD BY THE PUBLIC AND EQUITIES HELD BY SOCIAL SECURITY

(By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004
Debt, assuming CBO's baseline	$3,512	$3,372	$3,176	$2,979	$2,756
Effect of President's budget	53	119	220	323	432
Value of equities held by Social Security	−19	−36	−60	−85	−118
Debt net of equities under President's budget	3,546	3,455	3,336	3,217	3,071

Source: Congressional Budget Office.

Note: All amounts refer to debt or stock held at the end of the fiscal year.

The last chart calculates the portion of the surplus and the portion of the Social Security surplus that is "saved" using traditional scoring. The last line, which we penned in after the chart gnomes retired from this effort, includes the equity purchases.

HOW MUCH OF THE SURPLUS IS SAVED?

	2000	2000–2004	2000–2009
Baseline total surplus (billions of dollars)	$133	$952	$2,603
Baseline Social Security surplus (billions of dollars)	$137	$767	$1,777
Surplus under President's policies (billions of dollars)	$80	$516	$1,435
Percentage of total surplus saved	60%	54%	55%
Percentage of total surplus saved, including equities	74%	64%	66%
Percentage of Social Security surplus saved	58%	67%	81%
Percentage of Social Security surplus saved, including equities	72%	79%	97%

Source: Congressional Budget Office.

In conclusion, Mr. Chairman, the President's budget saves the equivalent of two-thirds of the unified surplus and most of the Social Security surplus counting equity purchases, although not in the first years.

Mr. Chairman, I think that some basic facts and choices are obscured by the current debate. When all is said and done, the President has done us a service in recognizing the long-run problem in Social Security. He proposes to solve part of the problem by transferring some of the responsibility of Social Security obligations to the general taxpayer. What matters is not so much how we get there—the accounting for all of this—but rather questions such as: What are the implications of general fund financing? What other reforms are necessary to ensure the long-run viability of the program? Should the government directly invest in equities?

The President also advocates socking away some, but not all, of the surplus, which will help economic growth. As I have testified before, the presumption must be that saving the surplus is good economics. Among the questions you must answer are: Will the savings materialize? Can they really be saved? And what do you do with the portion you choose not to save?

Mr. Chairman, I will quit there. I am sorry I took longer than you did, but not much longer.

[The prepared statement of Mr. Crippen follows:]

AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL YEAR 2000: A PRELIMINARY REPORT PREPARED BY THE CONGRESSIONAL BUDGET OFFICE

The President's budgetary proposals for fiscal year 2000 fall into three categories:

1. A group of basic policy proposals, including recommended levels of discretionary appropriations for fiscal year 2000, that are to be enacted whether or not agreement is reached on Social Security reform,
2. Proposals that are contingent on adoption of what the President calls his framework for Social Security reform, and
3. Additional proposals that are mentioned in the budget document or the State of the Union message but are not included in the budget numbers.

As requested by the Senate Committee on Appropriations, the Congressional Budget Office (CBO) has estimated the effects of the President's budgetary proposals using its own economic and technical estimating assumptions. Although a few of the estimates in the President's budget extend for 15 years, the Administration provides no details of its policies after 2009, and CBO's analysis also covers only 10 years.

CBO estimates that the Administration's budget—including both the basic policies and the Social Security framework—would reduce projected surpluses by $53 billion in 2000 and a total of $436 billion over the 2000-2004 period. Those figures do not include the additional proposals that the Administration has not clearly specified.

Under its basic policies, the Administration would increase discretionary spending above the levels allowed under the current statutory caps and would pay for that increase by raising revenues and cutting mandatory spending. CBO estimates, however, that those policies would increase discretionary spending by an amount that is only partly offset by higher revenues and lower mandatory spending. In 2000, the basic policies would reduce the surplus by $20 billion compared with CBO's current-policy projections (see Table 1). Over the 2000-2004 period, the Administration's basic policies would reduce the projected surpluses by a cumulative total of $73 billion.

TABLE 1.—CBO ESTIMATE OF THE EFFECT ON THE SURPLUS OF THE PRESIDENT'S BUDGETARY POLICIES

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000–2004
Baseline Total Budget Surplus[1]	111	133	156	212	213	239	263	309	338	358	383	952
Effect on the Surplus of the President's Budgetary Policies Excluding Social Security Framework Proposals[2]	−1	−20	−7	−14	−17	−15	−7	−2	([3])	−5	−4	−73
Surplus Under the President's Budgetary Policies Excluding Social Security Framework Proposals	109	113	149	198	196	224	255	307	338	353	379	880
Effect on the Surplus of the President's Social Security Framework Proposals[4]	0	−32	−60	−88	−87	−96	−109	−131	−146	−156	−171	−364
Surplus or Deficit (−) Under the President's Budgetary Policies Including Social Security Framework Proposals												
Total Budget	109	80	89	110	109	128	146	176	192	198	208	516
On-budget	−17	−126	−116	−124	−137	−146	−156	−166	−189	−223	−251	−648
Off-budget	127	206	205	234	245	274	301	342	381	421	459	1,164

Source: Congressional Budget Office.

[1] Assumes that discretionary spending will equal the statutory caps on such spending in 2000 through 2002 and will increase at the rate of inflation thereafter.
[2] See Table 3 for details.
[3] Less than $500 million.
[4] See Table 7 for details.

The President's budget also contains several proposals that are contingent on a legislative agreement that would extend the life of the Social Security trust funds. Those proposals include providing further increases in defense and nondefense discretionary spending, subsidizing new Universal Savings Accounts, making transfers from the general fund to the Social Security and Medicare trust funds, and using about one-fifth of the transfers to Social Security to purchase corporate stock. In total, the policies in the President's Social Security framework would reduce the surplus by $32 billion in 2000, more than $360 billion over the 2000-2004 period, and almost $1.1 trillion over the next 10 years. Because the general revenue transfers are intragovernmental, they would have no effect on total federal spending, revenues, or surpluses, but they would delay the projected date on which the Social Security trust funds would become insolvent. The Administration estimates that its Social Security framework would postpone the exhaustion of the Social Security trust funds from 2032 to 2055.

Finally, the Administration indicates that it will work with the Congress to develop additional proposals that will keep Social Security solvent for the next 75 years. In the context of those changes, the President has expressed his desire to eliminate Social Security's retirement earnings test and to reduce the rate of poverty among elderly widows and other elderly groups. In his State of the Union message, the President also suggested including a prescription drug benefit in Medicare. Because the Administration has not spelled out these additional proposals, CBO cannot estimate how much they would cost, and they are not included in this analysis.

To the extent that the federal government runs budget surpluses, it is able to pay down the amount of federal debt held by the public. Under current laws and policies, CBO projects that debt held by the public would decline from $3.6 trillion at the end of 1999 to $1.2 trillion in 2009 (see Table 2). Under the President's policies, debt held by the public would decline to an estimated $2.3 trillion in 2009. At that point, debt held by the public less Social Security's holdings of corporate equities would total $1.9 trillion, or nearly $800 billion more than in CBO's baseline.

TABLE 2.—CBO ESTIMATE OF DEBT HELD BY THE PUBLIC AND CORPORATE STOCK HELD BY SOCIAL SECURITY UNDER THE PRESIDENT'S BUDGETARY POLICIES INCLUDING THE SOCIAL SECURITY FRAMEWORK PROPOSALS

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Federal Debt Held by the Public Under CBO's Baseline Projections	3,628	3,512	3,372	3,176	2,979	2,756	2,508	2,212	1,886	1,540	1,168
Effect of the President's Budgetary Policies on Federal Debt Held by the Public	1	53	119	220	323	432	548	679	823	982	1,155
Federal Debt Held by the Public Under the President's Budgetary Policies	3,630	3,565	3,491	3,396	3,302	3,189	3,055	2,891	2,710	2,522	2,324
Value of Corporate Stock Held by Social Security Under the President's Budgetary Policies	0	19	36	60	85	118	156	204	262	331	413
Federal Debt Held by the Public Net of Corporate Stock Held by Social Security	3,630	3,546	3,455	3,336	3,217	3,071	2,899	2,687	2,448	2,191	1,911
Memorandum: Net Change in Debt Held by the Public and Corporate Stock Held by Social Security	1	35	83	161	238	314	392	475	562	651	742

Source: Congressional Budget Office. NOTE: All amounts refer to debt or stock held at the end of the fiscal year.

The President's Basic Policy Proposals

As part of his basic proposals, the President is requesting $564 billion in total discretionary budget authority for fiscal year 2000. CBO estimates that the resulting outlays would exceed the current statutory cap by $33 billion. The President is also proposing various tax increases and tax reductions that would, on balance, raise revenues by $11 billion in 2000. The Administration's mandatory spending proposals would reduce outlays in 2000 by a net of $1 billion, according to CBO's estimates.

CBO's estimates of the President's policy proposals

Under the President's proposals, total discretionary spending will increase significantly above the levels allowed under the existing statutory caps on such spending that are in place through 2002. But the budget also proposes increases in revenues and reductions in mandatory spending that the Administration estimates are sufficient to offset the increases in discretionary spending.

The President's request for discretionary appropriations will result in outlays that exceed the existing Deficit Control Act caps by almost $33 billion in 2000, according to CBO's estimate (see Table 3). Under CBO's assumptions, the proposed policy changes affecting revenues and mandatory spending will offset less than $13 billion of the increase in discretionary spending in 2000. Thus, the surplus will decline relative to CBO's baseline by $20 billion in that year. Net changes in revenues and mandatory spending will offset an estimated $44 billion of the $116 billion discretionary increase relative to CBO's baseline in 2000 through 2004, producing a cumulative reduction in the surplus of $73 billion over that period.

TABLE 3.—CBO ESTIMATE OF THE EFFECT ON THE SURPLUS OF THE PRESIDENT'S BUDGETARY POLICIES EXCLUDING SOCIAL SECURITY FRAMEWORK PROPOSALS

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000–2004
REVENUES												
Revenue-Increasing Provisions												
Raise tobacco taxes	(1)	8	7	7	7	7	7	7	7	7	7	36
Change sale-source rules for multinational firms	(1)	1	2	2	2	2	2	2	3	3	3	9
Other	(1)	6	8	8	8	8	10	8	9	9	10	39
Revenue-Reducing Provisions												
Assist taxpayers with long-term health care needs	0	(1)	−1	−1	−1	−1	−2	−2	−2	−2	−2	−5
Increase child and dependent care credit	0	(1)	−1	−1	−1	−1	−1	−1	−1	−1	−1	−5
Eliminate harbor maintenance tax	0	(1)	−0	−1	−1	−1	−1	−1	−1	−1	−1	−3
Other	(1)	−4	−4	−3	−4	−4	−5	−6	−7	−6	−5	−19
Total	(1)	11	11	11	10	9	10	7	7	9	10	52
OUTLAYS												
Discretionary	1	33	17	22	23	21	14	6	3	10	9	116
Mandatory												
Child care	0	1	2	2	2	3	3	3	3	3	3	9
Medicaid	0	(1)	(1)	(1)	1	1	1	2	2	2	3	2
Medicare	0	−1	−2	−2	−2	−2	−2	−2	−2	−2	−3	−9
Supplemental Security Income	0	(1)	(1)	(1)	(1)	(1)	1	1	1	1	2	1
Employer share of employee retirement	0	−1	−1	−1	−1	−1	−2	−2	−2	−2	−3	−6
Customs user fees	0	0	0	0	0	−1	−1	−2	−2	−2	−2	−1
Harbor maintenance fees	(1)	1	1	1	1	1	1	1	1	1	1	−5
Net interest	(1)	(1)	1	2	2	3	4	4	4	5	5	9
Other	(1)	(1)	2	2	2	1	(1)	(1)	(1)	−1	(1)	7
Subtotal	−1	−1	(1)	2	4	3	3	4	4	4	5	8
Total	1	31	18	25	27	24	18	10	7	14	14	124
TOTAL												
Total Change in Surplus	−1	−20	−7	−14	−17	−15	−7	−2	0	−5	−4	−73

Sources: Congressional Budget Office; Joint Committee on Taxation.
[1] Less than $500 million.

CBO estimates that the President's request for discretionary budget authority for fiscal year 2000 totals $564 billion—$282 billion for defense and $282 billion for nondefense programs. (In addition, he is requesting approximately $33 billion in obligation limits that control spending for discretionary transportation programs but do not count as budget authority.) Although that budget authority is $3 billion below the inflation-adjusted 1999 level of total appropriations (excluding funding for emergencies and the International Monetary Fund), CBO estimates that the resulting outlays would be $7 billion higher (about $3 billion in defense and $5 billion in nondefense programs) than the outlays that would result from providing an appropriation for each account equal to the 1999 appropriation adjusted for inflation. The outlays resulting from the President's plan would be $18 billion higher than those that would result from freezing discretionary budget authority at the 1999 dollar level in 2000 (excluding funding for emergencies and the International Monetary Fund), with the excess equally divided between defense and nondefense programs.

The Administration's proposals for the Department of Defense (DoD) represent a reduction of $7 billion in 2000 and $2 billion over the 2000-2004 period compared with the 1999 enacted level (including emergencies) adjusted for inflation. By the Administration's reckoning, however, its request represents an increase of $86 billion over the next five years. The Administration bases its claim on a comparison with its budget request of a year ago. The fiscal year 1999 budget slated $64 billion less for the Department of Defense over the 2000-2004 period than does the current budget. It also included $21 billion for price growth that the Administration's new price forecast would indicate is unnecessary. Nevertheless, the Administration proposes redirecting that funding to other purposes, thereby bringing its current budget to about $86 billion over last year's request as adjusted for the new economic forecast.

After taking into account adjustments to the caps (primarily for emergency appropriations) that would be required under current law if the President's proposals were enacted, CBO estimates that the President's discretionary spending would exceed the caps by $22 billion in budget authority and $30 billion in outlays (see Table 4). The President proposes to change current law to allow a number of revenue and mandatory spending proposals to count as offsets to discretionary spending. Under the Administration's assumptions, those offsets would keep discretionary spending from exceeding the caps. CBO has not yet separately identified its reestimates of those changes, but it estimates that the total net savings from all of the President's revenue and mandatory spending proposals would not be sufficient to bring discretionary spending down to the level of the caps.

TABLE 4.—DISCRETIONARY CAPS AND PROPOSED SPENDING FOR FISCAL YEAR 2000

(In billions of dollars)

	CBO Estimate		Administration estimate		CBO minus administration	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Baseline Caps[1]	537	573	538	574	−1	−2
Adjustments Under Current Law If President's Proposals Are Enacted	5	3	(2)	(2)	5	3
Caps with Current-Law Adjustments	542	575	538	574	4	1
President's Budget Request[1]	564	605	556	592	8	14
President's Budget Request Minus Baseline Caps	27	33	18	17	9	16
President's Budget Request Minus Adjusted Caps	22	30	18	17	4	13
Offsets That Would Require a Change in Law	(3)	(3)	−18	−18	(3)	(3)
Discretionary Spending Net of Offsets	(3)	(3)	538	574	(3)	(3)
Discretionary Spending Net of Offsets Minus Adjusted Caps	(3)	(3)	(4)	−1	(3)	(3)

Sources: Congressional Budget Office; Office of Management and Budget.

[1] Includes an upward adjustment for mass transit budget authority that is not subject to the caps.

[2] The Administration's baseline caps include adjustments the Administration assumes will be made if the President's proposals are enacted.

[3] CBO did not attempt to separate out its reestimates of the portion of proposed changes in revenues and mandatory spending that the Administration counts as offsets to discretionary spending.

[4] Less than $500 million.

The President has proposed a number of changes in tax laws that together would produce a net increase in revenues of $11 billion in 2000 and $52 billion in 2000 through 2004 (see Table 3). A proposed increase in tobacco taxes, including an increase of 55 cents a pack in the tax on cigarettes, accounts for almost half of the revenue increases. Other provisions that increase revenues include a change in the sale-source rules for multinational firms. Revenue-reducing provisions include proposals for a new tax credit to assist taxpayers with long-term health care needs, an increase in the credit for child and dependent care, and the elimination of the harbor maintenance tax, the effects of which are more than offset by a proposed new harbor maintenance fee that would be recorded as a negative outlay rather than a revenue.

Proposed changes in mandatory programs would reduce outlays by $1 billion in 2000 but increase them by $8 billion over the 2000-2004 period (see Table 3). Additional funding for child care ($1 billion in 2000 and $9 billion in 2000 through 2004) represents the budget's largest proposed increase in mandatory spending. Proposed changes in Medicaid would increase spending by $1 billion a year by 2003, and changes in a variety of programs would boost spending by a total of $7 billion in 2000 through 2004. Proposals to alter the Medicare program would reduce spending by $1 billion in 2000 and $9 billion in 2000 through 2004. The new harbor maintenance fee would increase offsetting receipts by $5 billion over the same period, but the repeal of the existing harbor maintenance tax would reduce revenues by $3 billion. Offsetting receipts would be increased by $6 billion in 2000 through 2004 because proposed increases in military and federal civilian employee pay and military retirement benefits would trigger increases in agency (employer share) payments to the military and civil service retirement funds. That estimate reflects the receipts into the funds. The increased payments to the fund are reflected in estimates of discretionary appropriations for civilian and military personnel costs.

DIFFERENCES WITH THE ADMINISTRATION'S ESTIMATES

CBO estimates that total budget surpluses will grow less rapidly over the next five years under the President's policies (excluding proposals that are contingent on agreement on Social Security reform) than they would under CBO's baseline. However, because CBO's economic and technical assumptions produce higher projected baseline surpluses than the Administration projects under current law, the total surpluses projected by CBO under the President's policies are $52 billion higher in 2000 through 2004 than the Administration estimates (see Table 5). Only in 2000 does CBO estimate a lower surplus than the Administration does.

TABLE 5.—CBO REESTIMATE OF THE PRESIDENT'S BUDGETARY POLICIES EXCLUDING SOCIAL SECURITY FRAMEWORK PROPOSALS

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2000–2004
ADMINISTRATION ESTIMATE							
Surplus Under the President's Budgetary Policies	79	117	134	187	182	208	828
SOURCES OF DIFFERENCES							
Baseline							
Revenues	8	−2	6	17	24	27	72
Outlays							
Discretionary	−7	−2	−1	(1)	−1	−2	−5
Mandatory	−16	−16	−15	−9	−5	−2	−48
Subtotal	−23	−18	−16	−9	−6	−4	−53
Total	31	16	22	26	31	31	125
Estimates of Proposed Policies							
Revenues	(1)	(1)	2	2	1	1	6
Outlays							
Discretionary	1	16	4	9	7	6	42
Mandatory	−1	5	5	7	11	10	37
Subtotal	1	21	9	15	18	16	79
Total	−1	−21	−7	−14	−17	−15	−73
TOTAL DIFFERENCES							
Revenues	8	−2	8	18	26	28	77
Outlays							
Discretionary	−6	14	3	9	6	4	36
Mandatory	−16	−11	−10	−2	5	8	−11
Subtotal	−22	3	−7	6	12	12	26
Total	30	−5	15	12	14	16	52

TABLE 5.—CBO REESTIMATE OF THE PRESIDENT'S BUDGETARY POLICIES EXCLUDING SOCIAL SECURITY FRAMEWORK PROPOSALS—Continued

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2000–2004
CBO REESTIMATE							
Surplus Under the President's Budgetary Policies	109	113	149	198	196	224	880

Sources: Congressional Budget Office; Joint Committee on Taxation.

[1] Less than $500 million.

Baseline Differences. CBO estimates that surpluses under current policies will be $125 billion higher over the 2000-2004 period than the Administration estimates. That difference represents less than 1.5 percent of the total outlays projected by CBO over that period. Estimated higher revenues and lower outlays are almost equally responsible for the cumulative upward reestimate. In 1999, however, lower outlays account for about two-thirds of the $31 billion difference (see Table 5).

CBO's estimates for discretionary and mandatory spending in 1999 are lower than those of the Administration. CBO projects that discretionary outlays will be $7 billion lower in 1999, with the difference about equally divided between defense and nondefense programs, and that mandatory spending will be $16 billion below the Administration's estimate. About two-thirds of that difference stems from CBO's lower estimate of spending for Medicare, a program that has experienced no growth for more than a year. CBO and the Administration agree that the growth in spending for Medicare will pick up, but the Administration's estimates assume that will happen more quickly. CBO also assumes that a variety of income security programs—including unemployment insurance, the earned income tax credit, the Food Stamp program, and Temporary Assistance for Needy Families—will spend about $5 billion less in 1999 than the Administration estimates.

Revenues will be an estimated $8 billion higher in 1999 than the Administration projects, largely because CBO expects taxable income to be slightly higher. The economic forecasts of CBO and the Administration are quite similar overall (see Table 6). But CBO's slightly higher projections of taxable income also explain most of the difference in baseline revenue projections for all years through 2004 except 2000, when CBO's technical assumptions offset the effects of different economic assumptions and produce a downward reestimate of $2 billion. Altogether, small differences in economic assumptions account for $58 billion of CBO's higher revenue estimate for the 2000-2004 period, but the effect on the surplus is offset by increases in outlays that result from the higher growth in the consumer price index and slightly higher interest rates that CBO projects.

TABLE 6.—COMPARISON OF ECONOMIC PROJECTIONS

(Calendar years 1999–2004)

	Forecast		Projected			
	1999	2000	2001	2002	2003	2004
Nominal GDP (Billions of dollars)						
CBO	8,846	9,182	9,581	10,015	10,476	10,960
Administration	8,833	9,199	9,582	10,004	10,456	10,930
Nominal GDP (Percentage change)						
CBO	4.1	3.8	4.3	4.5	4.6	4.6
Administration	4.0	4.1	4.2	4.4	4.5	4.5
Real GDP (Percentage change)						
CBO	2.3	1.7	2.2	2.4	2.4	2.4
Administration	2.4	2.0	2.0	2.2	2.4	2.4
GDP Price Index[1] (Percentage change)						
CBO	1.7	2.0	2.1	2.1	2.1	2.1
Administration	1.5	2.1	2.1	2.1	2.1	2.1
Consumer Price Index[2] (Percentage change)						
CBO	2.5	2.6	2.6	2.6	2.6	2.6
Administration	2.2	2.3	2.3	2.3	2.3	2.3
Unemployment Rate (Percent)						
CBO	4.6	5.1	5.4	5.6	5.7	5.7
Administration	4.8	5.0	5.3	5.3	5.3	5.3

TABLE 6.—COMPARISON OF ECONOMIC PROJECTIONS—Continued

(Calendar years 1999–2004)

	Forecast		Projected			
	1999	2000	2001	2002	2003	2004
Three-Month Treasury Bill Rate (Percent)						
CBO	4.5	4.5	4.5	4.5	4.5	4.5
Administration	4.2	4.3	4.3	4.4	4.4	4.4
Ten-Year Treasury Note Rate (Percent)						
CBO	5.1	5.3	5.4	5.4	5.4	5.4
Administration	4.9	5.0	5.2	5.3	5.4	5.4
Taxable Income[3] (Billions of dollars)						
CBO	5,178	5,351	5,562	5,795	6,054	6,328
Administration	5,166	5,354	5,551	5,778	6,037	6,308

Sources: Congressional Budget Office; Office of Management and Budget.
Note: Percentage change is year over year.

[1] The GDP price index is virtually the same as the implicit GDP deflator.
[2] The consumer price index for all urban consumers.
[3] Taxable personal income plus corporate profits before tax.

The baselines of both CBO and the Administration assume that discretionary spending will comply with the statutory caps that constrain appropriations in 2000 through 2002. CBO's projected discretionary spending for 2000 is $2 billion lower, however, because CBO does not include adjustments (primarily for emergency appropriations) that would be made under current law at the end of this year if the President's proposed appropriations are enacted. CBO's projected mandatory spending for 2000 is $16 billion lower than the Administration's (see Table 5). Estimates of spending for Medicare again account for the bulk—$9 billion—of the reestimate because CBO's estimate of low spending in 1999 holds outlays down relative to the Administration's estimates through 2003. Spending for income security programs under CBO's assumptions is $6 billion lower, but spending for Medicaid is $2 billion higher.

In addition, CBO's baseline estimate of mandatory spending in 2000 is $3 billion lower than the Administration's because the Administration assumes in its baseline projection that the pay-as-you-go balance for 2000 will be spent. (The Administration's baseline also assumes that pay-as-you-go balances for 2001 through 2003 will be spent.) Since legislation would be required to increase spending or reduce revenues, CBO did not assume those costs in its current-policy baseline.

The differences between CBO's and the Administration's estimates of baseline outlays continues to shrink after 2000 (CBO's estimate is only $4 billion lower than the Administration's in 2004), but the excess of CBO's revenue projections over the Administration's grows (to $27 billion in 2004), and the difference in estimates of the surplus returns to $31 billion in 2003 and 2004.

Differences in Estimates of Proposed Policies. Whereas the Administration estimates that proposed policy changes will have essentially no net effect on the surplus through 2004, CBO estimates that those changes will reduce cumulative surpluses for 2000 through 2004 by $73 billion. That reduction is the result of CBO's estimate that the President's proposed increases in spending will be larger than the Administration estimates (see Table 5). Revenues only partially offset that higher estimate of spending—the Joint Committee on Taxation and CBO estimate that the President's tax proposals will increase revenues $6 billion more than the Administration estimates in 2000 through 2004.

CBO's largest reestimate of the President's policies occurs in 2000. About three-fourths, or $16 billion, of the $21 billion difference between CBO's and the Administration's estimates of outlays in 2000 is accounted for by CBO's higher estimate of the outlays that would result from enactment of the President's requests for discretionary appropriations. Of that $16 billion, $2 billion stems from the anticipated adjustments to the caps (such as the increase required under the Deficit Control Act if emergency funding requested by the President is appropriated) that the Administration included in its baseline. CBO, however, does not include that amount in its baseline because the adjustments depend on enactment of the President's requested appropriations; the $2 billion is included in CBO's reestimate of the policies proposed by the President.

Of the remaining $14 billion difference in estimates of discretionary outlays for 2000, $10 billion is attributable to CBO's higher estimate of outlays for defense programs. In every year since 1994, CBO's estimates of outlays from defense appropriations have exceeded the Administration's but have proved to be lower than the outlays that actually resulted. The difference between CBO's and the Administration's estimates of defense outlays for 2000 is larger than in recent years (it was $5.7 billion in 1998 and $3.7 billion in 1999). Of the $10 billion, about $6 billion can be attributed to the differences in analytic judgments about spendout rates for new appropriations and assumptions about the timing of disbursements of unexpended balances that have generated differences in the past. The remaining $4 billion difference can be traced to the Administration's not including in the defense budget the outlays from 1999 contingent emergency appropriation funding that had not been released at the time the budget was presented to the Congress, and to different estimates of the effect of an assortment of proposed changes in Department of Defense practices. Those changes would deny interim or progress payments for contracts between $1 million and $2 million in value, reconfigure the accounting of spending for maintenance of real property, allow the Secretary of Defense to cancel up to $1.7 billion of enacted budget authority, and request appropriations only for the first-year costs of certain construction projects.

Unlike the Administration, CBO estimates that these proposed changes would produce little or no reduction in outlays. For instance, the Administration requests that $5.3 billion in funding for some construction projects be split into two parts: an appropriation of $2.3 billion in 2000 for the first-year costs of the projects and $3 billion in advance appropriations for 2001 to cover the remaining costs. However, the Administration applied the same spendout rate to the first-year funding that had previously been applied when the total funding was all provided in the first year. CBO assumes that the first-year funds will be spent much more quickly since they are sufficient to cover only the first-year costs of the projects, pushing CBO's estimate of outlays in 2000 up by $0.4 billion compared with the Administration's.

CBO estimates that the President's nondefense discretionary outlays are $4 billion higher than the Administration estimates. Two reestimates account for the bulk of that difference. The President's budget proposes that legislative language be included in the Commerce, State, and Justice appropriation bill for 2000 that would accelerate an auction of a portion of the electromagnetic spectrum that current law prohibits the Federal Communications Commission (FCC) from beginning before January 1, 2001. The Administration estimates that this action will produce an offset to discretionary spending of $2.6 billion in 2000 (and offsetting costs of $1.3 billion in 2001 and in 2002). Under current laws and policies, changes in mandatory spending (including timing shifts) resulting from legislation included in an appropriation bill are counted as discretionary spending for purposes of compliance with the caps. CBO assumes, however, that the FCC is highly unlikely to be able to move quickly enough on the proposed auction to produce any effect on outlays in 2000. CBO therefore estimates that accelerating the auction would produce a $1.6 billion increase in receipts in 2001 and a corresponding loss of receipts in 2002, when CBO assumes the auction would be completed under current law.

More than $1 billion of CBO's higher estimate of nondefense discretionary outlays is attributable to estimates of spending for highways and mass transit. The difference partly reflects CBO's assessment of the effect on highway spending of the delay in enactment of the Transportation Equity Act for the 21st Century in 1998. Because the funding provided by that bill did not become available until the summer of 1998, outlays for highway programs were lower in 1998 than had been anticipated. CBO assumes that the spending that did not occur in 1998 will carry over to subsequent years and has therefore increased its estimate of prior-year outlays that will occur in 1999 and 2000.

In the years from 2001 through 2004, CBO also estimates that discretionary outlays resulting from the President's proposals will exceed the Administration's estimates, although by smaller amounts than in 2000.

About three-fifths of CBO's total reestimate of mandatory spending for 2000 is attributable to the Administration's treatment of the pay-as-you-go balances. The Administration assumed $3 billion in savings relative to its baseline since it included the costs of spending increases or revenue reductions equal to the pay-as-you-go balance in its baseline but did not propose legislation to achieve those changes. By contrast, CBO—following the baseline rules of the Deficit Control Act that provide that revenues and mandatory spending are to be projected at current-law amounts, with a few specific exceptions—did not include costs equal to the pay-as-you-go balance in its baseline. Thus, CBO does not count any savings from the absence of legislative proposals to spend the balance. The other significant reestimate of a mandatory policy in 2000 is in student loans. The Administration estimates that a variety of proposed changes in the student loan program (such as establishing a national database of new employees to track students with outstanding loans) will yield net savings of about $2 billion in 2000 compared with CBO's estimate of about $1 billion.

On the mandatory side, the largest reestimate over the 2001-2004 period is for the President's proposed tobacco recoupment policy. According to the Administration, "U.S. taxpayers paid a substantial portion of the Medicaid costs that were the basis for much of the State settlement with the tobacco companies, and Federal law requires that the Federal Government recoup its share." The budget proposes to "waive direct Federal recoupment, if States agree to use a portion of funds from the settlement to support shared national and State priorities." The Administration assumes that this policy would reduce costs for those unspecified programs by $16 billion in 2001 through 2004. CBO assumes that any reduction in spending for the unspecified programs that might occur will be offset by the loss of the Medicaid funds that could have been recovered under current law—CBO's baseline assumes recoveries of less than $1 billion a year in 2001 through 2009—and therefore attributes no savings to the proposal.

The President's Framework for Social Security Reform

The budget includes a number of proposals as part of a package to reform Social Security and extend the life of the Medicare Hospital Insurance (HI) Trust Fund. Some of the proposals, such as a proposed increase in discretionary spending, are not directly related to Social Security or Medicare but are described as contingent on agreement being reached on Social Security reform. CBO estimates that together the proposals will reduce the total budget surplus by $1,076 billion in 2000 through 2009 (see Table 7). Some of the proposed changes would not affect the total budget surplus but would affect on- and off-budget surpluses and balances held by the Social Security and Medicare Hospital Insurance trust funds.

TABLE 7.—ESTIMATE OF THE EFFECT ON THE SURPLUS OF THE PRESIDENT'S SOCIAL SECURITY FRAMEWORK PROPOSALS

(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000–2009
Surplus or Deficit (−) Under the President's Budgetary Policies Excluding Social Security Framework Proposals as Estimated by CBO												
On-budget	−17	−25	4	45	34	53	71	113	134	140	160	729
Off-budget	127	138	145	153	162	171	184	194	204	213	218	1,782
Total	109	113	149	198	196	224	255	307	338	353	379	2,512
Effect on the Surplus of the President's Social Security Framework Proposals[1]												
On-budget												
Additional discretionary spending	0	0	−26	−41	−36	−34	−38	−41	−39	−33	−30	−318
Universal Savings Accounts	0	−14	−16	−22	−21	−24	−26	−32	−36	−39	−43	−272
General fund transfers to Social Security trust funds	0	−85	−70	−92	−90	−109	−121	−152	−177	−205	−232	−1,332
Interest paid to Social Security trust funds	0	−2	−5	−8	−12	−17	−22	−29	−37	−46	−57	−235
Net interest	0	−1	−3	−6	−11	−15	−21	−26	−33	−41	−49	−206
Subtotal	0	−101	−120	−169	−171	−199	−227	−279	−323	−364	−412	−2,363
Off-budget												
General fund transfers to Social Security trust funds	0	85	70	92	90	109	121	152	177	205	232	1,332
Purchase of stock by Social Security trust funds	0	−18	−15	−19	−19	−23	−25	−32	−37	−43	−49	−280
Interest paid to Social Security trust funds	0	2	5	8	12	17	22	29	37	46	57	235
Subtotal	0	68	60	81	84	103	117	149	177	208	241	1,287
Total Budget Effect	0	−32	−60	−88	−87	−96	−109	−131	−146	−156	−171	−1,076
Surplus or Deficit (−) Under the President's Budgetary Policies Including Social Security Framework Proposals as Estimated by CBO												
On-budget	−17	−126	−116	−124	−137	−146	−156	−166	−189	−223	−251	−1,634
Off-budget	127	206	205	234	245	274	301	342	381	421	459	3,069
Total	109	80	89	110	109	128	146	176	192	198	208	1,435

Source: Congressional Budget Office.

Note: Because the budget did not provide a detailed description of the proposed Social Security framework proposals, CBO has used the Administration's estimates of all effects except the changes in interest payments.

[1] Spending increases are shown with a negative sign because they reduce the surplus.

The proposals are to:

Increase defense and nondefense discretionary spending above the levels assumed by the President's basic policies by $318 billion in 2001 through 2009.

Provide seed money and matching funds totaling $272 billion in 2000 through 2009 for Universal Savings Accounts (USA accounts).

Make transfers from the general fund to the Social Security trust funds totaling $1,332 billion in 2000 through 2009.

Make transfers from the general fund to the HI trust fund totaling $350 billion in 2000 through 2009.

Use $280 billion of the money transferred to the trust funds to purchase corporate stock to be held by the trust funds. The proposal assumes that any returns on those investments will be reinvested in stocks.

Change the budget accounting rules so that certain amounts transferred to the Social Security trust funds would reduce the reported total budget surplus.

CBO's reestimate of the President's proposals does not reflect the proposed change in budget accounting. Following long-standing practice and scorekeeping rules agreed to by the Congress and the Administration, CBO uses current budget concepts and rules to estimate the President's proposals and will adopt the proposed change only after it is agreed to by the Congress and the Administration.

Because the Administration has provided little detail about the Social Security framework proposals, CBO's estimates are based on the costs of the programs included in the President's budget (except for CBO's own estimate of the resulting changes in interest costs). For instance, the budget does not specify which discretionary programs are to receive the proposed additional funding that is contingent on Social Security reform. Therefore, CBO cannot reestimate the outlay effect of the funding.

Similarly, the Administration has provided little information about how the proposed USA accounts would work, and CBO has simply assumed a program that will cost the amount specified in the budget. The budget does not indicate whether the costs of the USA program will be reflected as an increase in outlays or a loss of revenues. At least some of the costs will almost certainly be counted as outlays even if the program operates through the tax code (for instance, refundable portions of tax credits are shown as outlays), but part of the costs may be shown as a loss of revenues. In the absence of details, CBO has assumed that the costs will be divided equally between outlays and revenues.

CBO also assumes that the transfers from the general fund to the Social Security trust funds will equal the amounts included in the President's budget since the budget did not provide details about how the transfers would be calculated. The transfers themselves would have no effect on the total budget surplus (or debt held by the public) since they represent intragovernmental transfers. They would, however, affect the on- and off-budget surpluses. As shown in Table 7, the transfers (and the resulting increases in interest paid to the trust funds) and the costs of additional discretionary spending and USA accounts turn projected on-budget surpluses of $729 billion in 2000 through 2009 into on-budget deficits of $1,634 billion. The transfers of $350 billion from the general fund to the HI trust fund in 2000 through 2009 affect the fund balances but not the total or on-budget surplus since they represent a transfer from the general fund to an on-budget trust fund.

Using $280 billion of the transferred funds to purchase corporate stock to be held by the Social Security trust funds reduces the total and off-budget surpluses for 2000 through 2009 by that amount. CBO, like the Administration, treats the costs of those purchases as an outlay. The appropriate treatment of federal purchases of corporate stock was not addressed by the 1967 President's Commission on Budget Concepts or in subsequent efforts to determine budget concepts and rules. However, in at least one case, the Administration, CBO, and the Congressional budget committees have treated a federal transaction in corporate stock as an outlay. Stock held by the District of Columbia's pension funds was taken over by the federal government pursuant to provisions of the Balanced Budget Act of 1997. Administration and Congressional estimates of those provisions showed that the assumed sale by the federal government of that stock would produce offsetting receipts for the federal government, implying that the purchase of stock should be recorded as an outlay. That treatment, which is consistent with the basic assumption that budget transactions should be recorded on a cash basis, seems reasonable until the issue can be carefully considered and agreement reached on whether some other treatment would be more appropriate.

The value of the stock accumulated in the Social Security trust funds (including additional stock that will be purchased with any dividends) would affect the balances in the Social Security trust funds and should be taken into account in assessing the financial position of the federal government. The money borrowed from credit markets to purchase the stock is immediately returned as an investment in the private sector. Thus, the purchase of stock can be viewed as merely an exchange of financial assets and would have little economic effect. For purposes of determining the federal government's demand on private financial markets, therefore, the value of the stock should also be considered as an offset to debt held by the public. However, although the anticipated increase in the value of the stock above the costs of borrowing to purchase the stock appears to make the government better off, it does not represent an improvement in the economy.

CBO'S REVISED BASELINE

In the course of preparing its annual analysis of the President's budget, CBO typically updates its baseline projections to take account of new information from that budget and other sources. The revised March projections then usually become the starting point for the budget resolution baseline.

CBO's new March projections are only slightly different from those issued in its January 1999 report, The Economic and Budget Outlook: Fiscal Years 2000-2009 (see Table 8). Projected surpluses are slightly higher in every year—by an average of less than $4 billion a year. CBO now projects that the total budget surplus will be $111 billion in 1999 and will grow to $383 billion in 2009 (see Table 9). It still projects that when the off-budget transactions of Social Security and the Postal Service are excluded, small on-budget deficits will remain in 1999 and 2000. But, as in January, CBO projects on-budget surpluses starting in 2001.

TABLE 8.—CHANGES IN CBO BASELINE SURPLUSES SINCE JANUARY 1999

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
January 1999 Baseline Total Budget Surplus	107	131	151	209	209	234	256	306	333	355	381
Technical Changes											
Revenues	0	0	0	0	0	0	0	0	0	0	0
Outlays											
Discretionary	−1	−2	−1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Medicare	−6	−3	−2	−2	−2	−3	−5	−1	−2	(1)	2
Medicaid	−1	−1	−1	−1	−1	−1	−1	−1	−2	−2	−2
Other mandatory	4	3	−1	−1	(1)	−1	(1)	−1	−1	−1	−1
Subtotal	−3	−2	−5	−4	−3	−5	−7	−3	−4	−3	−2
Total	3	2	5	4	3	5	7	3	4	3	2
March 1999 Baseline Total Budget Surplus	111	133	156	212	213	239	263	309	338	358	383

Source: Congressional Budget Office.
[1] Less than $500 million.

TABLE 9.—CBO BASELINE BUDGET PROJECTIONS, ASSUMING COMPLIANCE WITH THE DISCRETIONARY SPENDING CAPS

(By fiscal year)

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	IN BILLIONS OF DOLLARS											
Revenues												
Individual income	829	863	893	919	958	990	1,035	1,085	1,138	1,195	1,258	1,323
Corporate income	189	193	188	191	202	214	226	238	250	259	267	273
Social insurance	572	610	640	666	691	717	746	783	816	852	885	923
Other	133	148	148	154	164	170	177	182	188	194	200	208
Total	1,722	1,815	1,870	1,930	2,015	2,091	2,184	2,288	2,393	2,500	2,611	2,727
On-budget	1,306	1,368	1,402	1,443	1,508	1,563	1,634	1,711	1,791	1,871	1,956	2,046
Off-budget	416	446	468	488	506	527	550	577	602	628	654	681
Outlays												
Discretionary spending	555	574	573	573	568	583	598	614	630	646	663	680
Mandatory spending	939	979	1,027	1,081	1,136	1,205	1,273	1,357	1,419	1,505	1,603	1,704
Offsetting receipts	−84	−78	−80	−86	−97	−93	−96	−101	−106	−112	−118	−125
Net interest	243	229	218	207	195	183	170	156	140	123	104	85
Total	1,653	1,704	1,737	1,775	1,802	1,878	1,946	2,025	2,083	2,162	2,253	2,344
On-budget	1,336	1,384	1,407	1,432	1,449	1,512	1,567	1,632	1,675	1,737	1,810	1,880
Off-budget	317	320	330	343	353	366	379	393	408	425	442	464
Deficit (−) or Surplus	69	111	133	156	212	213	239	263	309	338	358	383
On-budget	−30	−16	−5	11	59	51	68	79	116	134	146	165
Off-budget	99	127	138	145	153	162	171	184	193	204	212	218
Debt Held by the Public	3,720	3,628	3,512	3,372	3,176	2,979	2,756	2,508	2,212	1,886	1,540	1,168
	AS A PERCENTAGE OF GDP											
Revenues												
Individual income	9.9	9.9	9.8	9.7	9.7	9.6	9.6	9.6	9.6	9.6	9.7	9.8
Corporate income	2.2	2.2	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.0
Social insurance	6.8	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.8	6.8
Other	1.6	1.7	1.6	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Total	20.5	20.7	20.6	20.4	20.3	20.2	20.2	20.2	20.2	20.2	20.2	20.2
On-budget	15.5	15.6	15.4	15.2	15.2	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Off-budget	4.9	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0

TABLE 9.—CBO BASELINE BUDGET PROJECTIONS, ASSUMING COMPLIANCE WITH THE DISCRETIONARY SPENDING CAPS—Continued

(By fiscal year)

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Outlays												
Discretionary spending	6.6	6.6	6.3	6.0	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0
Mandatory spending	11.2	11.2	11.3	11.4	11.5	11.6	11.7	12.0	12.0	12.1	12.4	12.6
Offsetting receipts	−1.0	−0.9	−0.9	−0.9	−1.0	−0.9	−0.9	−0.9	−0.9	−0.9	−0.9	−0.9
Net interest	2.9	2.6	2.4	2.2	2.0	1.8	1.6	1.4	1.2	1.0	0.8	0.6
Total	19.7	19.4	19.1	18.7	18.2	18.1	18.0	17.9	17.6	17.4	17.4	17.3
On-budget	15.9	15.8	15.5	15.1	14.6	14.6	14.5	14.4	14.1	14.0	14.0	13.9
Off-budget	3.8	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.4	3.4	3.4	3.4
Deficit (−) or Surplus	0.8	1.3	1.5	1.6	2.1	2.1	2.2	2.3	2.6	2.7	2.8	2.8
On-budget	−0.4	−0.2	−0.1	0.1	0.6	0.5	0.6	0.7	1.0	1.1	1.1	1.2
Off-budget	1.2	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Debt Held by the Public	44.3	41.4	38.6	35.6	32.1	28.8	25.4	22.1	18.7	15.2	11.9	8.6
Memorandum:												
Gross Domestic Product	8,404	8,762	9,095	9,476	9,904	10,358	10,837	11,337	11,855	12,391	12,946	13,521

Source: Congressional Budget Office.

The largest change in CBO's projections since January is a reduction in Medicare outlays—by $6 billion in 1999 and lesser amounts in subsequent years—reflecting the continuation through the first months of 1999 of an unprecedented period of no growth in spending for that program (see Table 8). CBO assumes that the rate of spending for Medicare will pick up in the remaining months of 1999 but that outlays will remain a little below the levels projected in January until 2008. CBO's revised projections of Medicaid spending are also lower—by a little more than $1 billion a year, on average, for the 1999-2009 period. The projections for a number of other programs are slightly higher than in January, resulting in a total reduction in projected outlays of $41 billion in 1999 through 2009. CBO has made no change in its projections of revenues.

Under CBO's baseline assumptions, federal revenues are expected to total about $1.8 trillion this year—or approximately 20.7 percent of gross domestic product (see Table 9). As a percentage of GDP, projected revenues fall gradually to 20.2 percent in 2003 and hold steady at that level through 2009. Total spending is expected to be slightly more than $1.7 trillion this year—or 19.4 percent of GDP. Spending is projected to increase in dollar terms—to more than $2.3 trillion in 2009—while falling as a percentage of GDP to 17.3 percent in that year. If there are no changes in current policies, debt held by the public is projected to fall from $3.7 trillion at the end of 1998 (44.3 percent of GDP) to less than $1.2 trillion (8.6 percent of GDP) in 2009.

Chairman KASICH. I think we have a record here. We will put that in the Guinness Book of World Records, opening statement and the witness being able to complete his testimony.

Thanks for that, Dr. Crippen. Let me just ask you a couple of questions. First of all, I wonder have you had a chance to do an analysis of 2 percent of payroll being able to be invested similar to what Federal employees do in terms of being able to solve the long-term Social Security problem?

Mr. CRIPPEN. We have begun, Mr. Chairman, to look at a number of the proposals that are extant at the moment. Senators Domenici and Gramm, as you know, have one; Mr. Archer is working on another. In rough terms, 2 percent of payroll is what the actuaries assessed to be the problem facing Social Security in the next 75 years. If we increased resources to the trust fund by 2 percent of payroll, we would essentially solve the 75-year problem. So any plans that put the equivalent of 2 percent of payroll into the trust fund or into the Social Security system would essentially solve the 75-year problem.

Chairman KASICH. Get a note of that over there gang. I think that is important that everybody notice that, I mean. And the benefits of being able to solve the Social Security problem for 75 years, how does that impact then on the national debt?

Mr. CRIPPEN. Well, if we truly saved it, Mr. Chairman—and one has to be a little skeptical about lockboxes and other things—it would reduce the national debt considerably; not quite as much as in our baseline, but by a considerable amount. The national debt would go down eventually to zero and turn the corner and come back in the latter part of the 75-year period.

Chairman KASICH. Pretty interesting. And at the same time, we are paying down publicly held debt, correct?

Mr. CRIPPEN. Yes.

Chairman KASICH. Right now? Are we paying down publicly held debt as we sit here today and breathe and feel so good about paying down that public debt? Are we doing that right now?

Mr. CRIPPEN. Yes.

Chairman KASICH. How much have we paid down since we started talking here, 10 after 10 until now?

Mr. CRIPPEN. During the course of my statement, I think we probably paid it down a couple billion.

Chairman KASICH. There we go. See, Pete, do you feel better? OK.

Mr. HERGER. How is the debt owed to the government going?

Chairman KASICH. It is going, but he said if you would—why don't you repeat this again. Let me just say that there are two parts to the national debt, and one is the publicly held debt, which has been paid down in the last year; is that correct, Mr. Crippen?

Mr. CRIPPEN. Yes.

Chairman KASICH. OK. So the publicly held debt has come down. If we are able to do 2 percent of payroll, and it is for real, and we have—and it is for a savings plan where you presume you are earning about 7 or 8 percent, what does that do if you can save—if the actuaries say we then have saved Social Security for 75 years, which is a plan we can enact tomorrow, we could enact it before the end of this year, what would that do to the national debt? Again, if you would——

Mr. CRIPPEN. If it is actually saved, Mr. Chairman, it would reduce the national debt by a considerable amount; not quite as much as in our baseline forecast for the short run, but by a very considerable amount.

Chairman KASICH. So we would have a declining national debt?

Mr. CRIPPEN. Yes.

Chairman KASICH. Both publicly held and privately held?

Mr. CRIPPEN. Yes.

Chairman KASICH. Good.

Now, let me ask you about the programmatic changes that—the myriad of programmatic changes that the President has made in Medicare and Social Security. Tell me about all of those programmatic changes that he has made in these programs.

Mr. CRIPPEN. In the basic budget, Mr. Chairman, there are a number of modifications to mandatory and other spending.

Chairman KASICH. I mean just for Social Security and Medicare. Tell me about the myriad of changes he has made in those two.

Mr. CRIPPEN. Assuming that we incorporate the Social Security framework, the two primary changes in that framework are transfers of general funds to both the Social Security trust fund and the Medicare Hospital Insurance (HI) trust fund. But there are virtually no changes in the Social Security framework other than those two transfers.

Chairman KASICH. Well, those aren't a programmatic change, are they?

Mr. CRIPPEN. No.

Chairman KASICH. How many programmatic changes does the President have to save Social Security and Medicare?

Mr. CRIPPEN. Other than the transfers——

Chairman KASICH. That is not a programmatic change, right?

Mr. CRIPPEN. Other than the transfers, virtually none. There are some proposals in the budget that speak to other Social Security benefits, of course, but there are no details on that.

Chairman KASICH. What about revenues, what are we going to do on the revenue updates? Tell us what you think about what—

we are now ahead of where we thought we were going to be on revenue collection, is that correct, right now?

Mr. CRIPPEN. Yes.

Chairman KASICH. Is there any sign that any of this is—of course, we had 6 percent economic growth in the last quarter, I guess. So it doesn't look like it is abating, correct?

Mr. CRIPPEN. Correct.

Chairman KASICH. So when are we going to get another update here on how much more surplus we have?

Mr. CRIPPEN. Well, we will do, in concert with the monthly Treasury statements, reviews of our own surplus estimates, which we will be happy to share with you; I think we probably do that routinely now. We do need to note, Mr. Chairman, that much of the change we are seeing is for the current fiscal year. And there is still some question as to how far that extends into the next fiscal year.

Also there are some counterforces here for our purposes. Inflation is lower than we had predicted. In fact, if we were to do the forecast today, we would probably lower our inflation forecasts for this year and probably next. But in so doing—by upping real growth and lowering inflation—nominal gross domestic product [GDP] stays about the same, which is what drives our revenues. In fact, if you look at the Blue Chip, which is a half-point above us on real growth but also has lower inflation, its nominal GDP is very close to ours, in which case the revenues would be roughly the same.

Outlays should be somewhat lower because of lower inflation. And we have had, as you know, in the past few days a bump-up in long-term rates of some 30 or 40 basis points. If that trend persisted—and there is no reason to think that it will—it would change our interest costs as well.

It is a mixed bag. But in the main, your observation is right. We are certainly above what we thought would happen for real growth this year, and we are lower on inflation.

Chairman KASICH. So do we think there is a pretty good prospect that the surplus for the year 2000 will be greater?

Mr. CRIPPEN. I would say, as my friends in Wall Street say, that is where the bias is.

Chairman KASICH. That is where the what is?

Mr. CRIPPEN. The bias.

Chairman KASICH. The bias.

Mr. CRIPPEN. The bias is upward. It looks like because of——

Chairman KASICH. What do they say on Main Street?

Mr. CRIPPEN. The answer to your question is yes.

Chairman KASICH. So you think we will have a bigger surplus?

Mr. CRIPPEN. Yes.

Chairman KASICH. That is good to know.

OK, I want to thank you, Dr. Crippen.

Mr. Spratt.

Mr. SPRATT. Dr. Crippen, you say the revenues are about the same. Over the last couple of years, CBO has substantially updated, upgraded its revenue forecast. Are you comfortable with the revenue forecast, and are you comfortable with the method of forecasting revenues over 5 and 10 years?

Mr. CRIPPEN. Comfortable, yes; satisfied, no. I think we can improve those estimates. We have seen some pretty substantial errors in the recent past. I think we do almost as good a job—in some cases, a better job—than others, but we need to improve the estimates. Based on the January baseline, the revenue forecast still can't be too far off. As I just answered the Chairman, if we were to make an estimate at this point, it would probably be a little bit low in terms of revenues. But as you say, I am comfortable with where we are at the moment; however, I think we can improve our estimating capability.

Mr. SPRATT. Is your level of dissatisfaction such that you would caution us to not rely upon these outyear surpluses stretching out 4, 5, 6, 7 years?

Mr. CRIPPEN. Certainly—the longer you go out, the more you are basing the projections on assumptions and not facts. And we have only 3 or 4 more months of data now than we had when we made our original estimates back in December, so we don't have a lot more knowledge to radically change what we did in the baseline initially. So the further you go, the less certain anybody is. And in a statistical sense we have less confidence in these estimates the farther out we go.

Mr. SPRATT. You say that by your reckoning the President's proposals take about $53 billion out of the surplus that would otherwise occur if we simply went forward as things are, current services, so to speak?

Mr. CRIPPEN. Yes, sir, in the——

Mr. SPRATT. In year 20 plus 32.

Mr. CRIPPEN. Right, exactly.

Mr. SPRATT. Now, the 20—the 32 is connected with the President's Social Security framework?

Mr. CRIPPEN. Yes, sir.

Mr. SPRATT. And some of this has to do with the way we score things; does it not?

Mr. CRIPPEN. Yes, absolutely.

Mr. SPRATT. Because if you transfer the money to the Social Security trust fund, and the trust fund spends the money for the purchase of securities, that is treated as an outlay, scored as an outlay, but really is just swapping cash for a near cash asset; is it not?

Mr. CRIPPEN. Yes, and that is why, on our last chart, we added the equities to the amount the President would save. We take the surplus under conventional accounting, like the $80 billion, and we add back the value of the equities purchased. We recognize exactly that point, and that is what the red-line numbers entail. We have added back the equities to the surplus.

Mr. SPRATT. OK. I missed that point of your testimony. The balance of it, however, then, is the transfer of Treasury securities?

Mr. CRIPPEN. The balance of the 32?

Mr. SPRATT. Of Social Security framework, the $32 billion.

Mr. CRIPPEN. The balance of the 32 is a combination of things. Table 7 in the preliminary report has all of the details. One big piece is the increase in discretionary spending, and another is the outlays for the USA accounts.

Mr. SPRATT. But that would be under non-Social Security, would it not; that is in the 20?

Mr. CRIPPEN. No, it is part of the framework.

Mr. SPRATT. I see what you are saying.

Mr. CRIPPEN.There is the basic budget, which is the $20 billion that we talked about; add the President's Social Security framework, that is the 32.

Mr. SPRATT. Yes. As to the non-Social Security addition there, does this have to do with scoring conventions, or is this because you estimate the outlay effect of the President's proposals at a higher rate than he proposes in the OMB?

Mr. CRIPPEN. It is probably a combination, Mr. Spratt. But most of the discretionary increases, I think, do not result from scoring differences. They are proposals the President has in his budget for expanded spending. Recall the $30 billion of our estimate over the caps for next year; $17 billion of that, over half of it, you could say results from scoring differences, but the President proposes to increase taxes and other things to pay for part of that $30 billion. The discretionary spending increases are not so much a scoring issue—and we may have some individual differences here and there—as it is expanded spending in the President's budget.

Mr. SPRATT. If we took Mr. Kasich's proposal, which is to carve 2 points out of the payroll tax and put those in private accounts, this would have to be scored as an outlay; would it not?

Mr. CRIPPEN. From what we know, yes, currently, but it is not an issue that the original President's Commission on Budget Concepts addressed. We are still looking at these proposals. On its face, it would appear to be an outlay.

Mr. SPRATT. And 2 percent is 1/6 of the payroll tax, so that is 1/6 of our $400 billion?

Mr. CRIPPEN. Yes.

Mr. SPRATT. That is about $50 billion a year?

Mr. CRIPPEN. It sounds about right.

Mr. SPRATT. So this would be in addition to the—this would take away from the surplus as well over the next 15 years; it would take nearly $700 billion away from the surplus?

Mr. CRIPPEN. It could. Again, we don't have enough detail on any of these proposals—certainly not on the one that the chairman just offered—to tell you exactly how the accounting would work. And there are some issues here that CBO, OMB—nobody—has really addressed. All I can do is speculate at this point.

The question is: Does that increase net national saving or not? As I said earlier in the testimony, that is the bottom line that we need to worry about.

Mr. SPRATT. I understand. But for bookkeeping purposes, it would be $50 billion, and that amount would rise as the payroll tax amount went up, and you would also have an effect on debt service, so you could easily take a trillion dollars off the surplus in the next 15 years if you pursued this proposal?

Mr. CRIPPEN. Entirely possible. Again, without specifics on the proposal, I don't know how the traditional accounting would treat it. I would say as a larger comment—not so much to the point of your question—that this is a very big change. We haven't had surpluses in a very long time, certainly not of this magnitude. The President's proposal advocates a change in accounting. You may want to change the accounting for any of these proposals.

In terms of traditional accounting, I can't tell you without specifics exactly how the Chairman's proposal would work. My guess is that I would agree with you—that it would appear as an outlay on the unified budget.

Mr. SPRATT. Now, in saying that this proposal, that pursued 75 years would make Social Security solvent for at least that long, are you assuming that the net national savings accumulation, the addition in net national savings, because of these private accounts would have an impact on the growth rate in the economy? Are you factoring that into the overall solution?

Mr. CRIPPEN. No, I hadn't, Mr. Spratt. I was just referring to the actuary's report that says the gap between financing and obligations over 75 years is roughly equal to 2 percent of payroll. So if we add more resources to Social Security equal to 2 percent of payroll, as the Chairman suggested, I would assume that would about solve the problem. But I am not assuming that it is an increase in net national savings. It is not dynamic in the sense of having an assumed effect on the economy.

Mr. SPRATT. Let me ask you with respect to the President's proposal, the way Mr. Lew presents it, it is to say, look at what we are paying today for Social Security as a percentage of GDP, gross domestic product, about 4.6 percent. To reach the peak requirement in the next 50, 60 years, we need another 2.6 percent of GDP carved out and allocated to Social Security, which would take us to about 7.2 percent.

If you combine what Mr. Lew says today's commitment to Social Security is at 4.6 percent with what we are spending on debt service, which is about 3 percent of GDP or a little less, you get about 7.2, 7.3 percent. What he says we are doing in the administration is driving down the costs of debt service to the point where it is below 1 percent, so that when the costs of Social Security goes up to about 7.2 percent, the total burden on the economy is still within the range of 7.6, 7.7 percent.

Would you agree with that simple arithmetic as a way of seeing through the accounting and getting to the essence of their proposal?

Mr. CRIPPEN. Not directly. As we pay down debt, we will certainly have less debt service, which could free up current taxes to pay for Social Security or anything else the Congress chooses to pay for. So in some sense, yes, you are going to reduce debt. Our calculations, both in the baseline and in these reports, take into account the changes in debt service. So as we project debt and the surplus, we have obviously taken into account the debt-service reductions in the President's proposal in our baseline.

Again, we can only look at the next 10 years, so I can't speak very precisely to anything past that. But it is also true, Mr. Spratt, that those reductions in interest payments, because they are within the budget, could go somewhere else, too. Yes, it could free up current general fund taxes to help add to the Social Security payments in the future, but you have to make a lot of assumptions between now and then about what happens with the rest of the budget in order to have much of a statement about what does it do to net national saving or other things.

Mr. SPRATT. Leaving aside the specific proposal, do you agree with the general proposition that if we use the forthcoming surpluses to pay down public debt, debt held by the public, and to increase net national savings, that we are working toward a solution to the long-term Social Security problem?

Mr. CRIPPEN. Yes. But let me tell you one of the things that Mr. Lew assumes in that same budget and in those same calculations is that discretionary spending will go down from 8 percent to 3 percent of GDP. I am not sure that is going to happen either. I am not here to say it won't. These are very long-term projections, and they anticipate a lot of governmental behavior that I can't forecast. So in theory, if we reduce net national debt, we would reduce debt-service costs, and that reduction of debt-service cost could free up general funds to pay for anything, including Social Security. So if all other things are equal, paying down the debt could help with anything. It could help with Social Security or with Medicare.

Mr. SPRATT. It helps with Social Security because when the trustee of the administrator goes to the Treasury lender bearing a bond, the Treasury is in a much better position to pay the bond because the outstanding debt is maybe two-thirds the level that it was 25 years prior to that. Wouldn't that put the Treasury and the Social Security Administrator both in better positions?

Chairman KASICH. Why don't you say yes, Dan. Let me get to the next person.

Mr. SPRATT. The answer is manifestly yes. I think it is axiomatic. OK. You have got a lot of people to ask questions on your side. I lost my train of thought. That is all right.

One further question. I know what my question was. I was going to quit on this one anyway. Listen, are you satisfied—you may prefer a different approach, you may prefer that 2 percent proposal that you just described, but taking the President's proposal as he laid it out, which is to take the payroll taxes that the Treasurer receives for which he gives a Treasury special in return, take that cash, don't use it to offset tax cuts, don't use it to increase spending initiatives, but use it instead to buy outstanding publicly held debt, and then give dollar for dollar that debt to the Treasury—excuse me, to the Social Security trustee, are you satisfied if we can put that in black letter law, embed it in the Code, require the Treasurer and the Administrator to follow this procedure religiously, that this will drive down debt and increase the securities held by these Social Security trustees?

Mr. CRIPPEN. Yes, but less than in our baseline, less than if we did nothing at all. The President clearly chooses to save some of the surplus. Deciding whether or not his mechanism works I leave to you, and in the future we will have to debate that. But he also chooses to spend some. If you saved it all, you would have even more of a positive effect. So the debate, as I said in my opening remarks, focuses on two questions. The first question is: How much of the surplus are you going to save? And it sounds like we are talking about 62 percent or so. And then the next question is: What do you do with the what you are not saving? That is the debate I think you are having.

Mr. SPRATT. I understand that, but I think you just said, talking about discretionary spending declining as a percent of GDP and the unlikelihood of that, I think you implied that following this path of current services with no big spending initiatives and no big tax cuts and all the while accumulating huge surpluses is not a realistic course.

Mr. CRIPPEN. It may not be, but the reduction of out-year discretionary spending is what is included in the President's budget. We don't make that assumption in our baseline because we don't go that far. Our baseline is very vanilla-flavored, traditional. You have seen it. We assumed that after the caps expire, inflationary growth goes back in. If we did nothing and just spent our baseline, which you say is not necessarily going to happen, we will save more than the President's budget. Nobody is talking about saving it all. We are talking about saving substantial portions, and that is a good thing. The question is what to do with what we don't save.

Mr. SPRATT. Thank you, Mr. Chairman.

Chairman KASICH. Thank you, Mr. Spratt.

Mr. Chambliss is recognized for 5 minutes.

Mr. CHAMBLISS. I want to get my questions in before the Chairman interrupts me here. I want you to address a couple of different areas: First of all, defense; secondly agriculture.

There is a general feeling, I think, among Members of the House that we ought to have an increase in defense spending. And I think the White House has openly stated that they agree with that, that there ought to be an increase in defense spending. In fact, the President has cited the fact in his budget he calls for an increase of some $12 billion for defense.

You note in your remarks, and, again, it has been widely stated, that really we are only talking about $4 billion in new money. I would like for you to explain, first of all, to this committee what the difference in that 12 billion and that 4 billion in new money is.

Secondly, with regard to defense spending and the President's budget, are there any assumptions made in the President's budget with respect to future increases in defense spending, and do you anticipate that the assumptions that are set forth in there are realistic and will, in fact, take place?

With regard to spending and agriculture, the President stated in his State of the Union Address that he was ready to work with lawmakers of both parties to create a farm safety net that will include crop insurance reform. I reviewed the President's budget, and, frankly, I didn't see any indication of any crop insurance reform proposals in the way of increased funding for agriculture—in the agriculture portion, specifically for crop insurance.

We have got real problems in ag country all over this great country of ours today. One of the potential safety nets that we can provide our farmers is in the area of crop insurance. And would you address whether or not you see any, number 1, reforms in the President's budget with respect to crop insurance, and secondly, any funding to make provision for those reforms?

Mr. CRIPPEN. I think there are three questions here. First, the President's defense increases are contingent on the Social Security changes. That is part of his contingent budget. So it is inside what we call the Social Security framework.

Mr. CHAMBLISS. With respect to those changes, you already addressed that in your answer to Chairman Kasich. And did you find any reforms that are assumed in increased—did you find any reforms in the budget with respect to Social Security?

Mr. CRIPPEN. No.

Mr. CHAMBLISS. OK.

Mr. CRIPPEN. But the increase in defense that the President is speaking about would occur only if you agree to the Social Security framework, which includes a number of things. It includes USA accounts and the purchase of equities. So that entire piece of the budget—at least the way it is presented—is contingent. The defense increases that the President is talking about are contingent on Social Security reform. You heard him say that as well.

Second, much of the increase that the President is talking about is compared with his request of last year, not last year's appropriation levels. That is the big difference between the figures. So the big numbers that are being talked about for defense increases are mostly increases in the President's request from his request last year, not from current funding.

Over the 5 years of the budget window that we have analyzed, the defense request in the President's budget, again contingent on the Social Security reform, is slightly below the baseline. I think over the 5 years, it is a total of minus $1 billion in outlays. It is pretty close.

The first year is closer, but it is roughly at baseline over the long term. So it is not an increase the way you folks normally think about spending, it is not an increase anywhere in the budget window over baseline. And in some cases, it is a reduction.

On agriculture, again, subject to being corrected, I think we found nothing in the budget on agricultural reform. I have looked at Table 7 in our preliminary report, and I don't see any additional mandatory spending for ag programs, which is, as you are aware, where most of it appears. We didn't find any specific reform proposals of the kind you are referring to, such as crop insurance reform or additional resources being committed to agriculture in any significant way.

Mr. CHAMBLISS. Thank you, sir.

Chairman KASICH. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Crippen, first of all, just briefly, in your discussions before this committee and other committees, you seem to be taking a different position than your predecessor as it relates to how CBO looks at debt held by the public and total debt including intergovernmental debt.

Is that true? Is there a change in the position? CBO normally just looks at debt held by the public.

Mr. CRIPPEN. No, there is no change that I am aware of and certainly no conscious change. I think we looked at gross debt in the past as well. But gross debt doesn't tell you a great deal. The effects on the capital markets and economy are all driven by debt held by the public.

Mr. BENTSEN. It is an intergovernmental cross-balance-sheet transfer?

Mr. CRIPPEN. If we displayed everything differently, it wasn't a conscious effort to do that.

Mr. BENTSEN. In response to Mr. Kasich's question, he brought up the Federal Employee Retirement System, which, of course, is a completely different system than Social Security, it is a supplemental retirement system, Federal Employee Retirement System members also pay in the Social Security. But he talked about the 2 percent or—in response you mentioned the 2 percent, 2 percent plus Social Security deficit going forward, which is a 3 to $4 trillion cost, I think it is something along those lines, over a 75-year period.

Some have suggested that we should subtract 2 percent of payroll tax into a private account as a means of supplementing that. Does CBO know what return would be necessary on an individual account to both absorb—to both get back to the Social Security baseline, average baseline, as well as to absorb the 2 percent costs in the deficit and the transitional costs that would be associated as well?

Mr. CRIPPEN. The short answer is no. We have not tried to——

Mr. BENTSEN. Would it be greater—let me ask you this: Would it be substantially greater than the current Treasury rate of return?

Mr. CRIPPEN. Yes.

Mr. BENTSEN. Substantially greater than the current S&P—20-year S&P index return, you think?

Mr. CRIPPEN. I don't know. We don't predict the stock market for obvious reasons. If we did, I would probably find another profession. So I don't know the answer to your question. We do some long-term projections of Social Security.

But those projections are based on the actuaries' figures, and we can just move them up or down a little. We don't at the moment have the ability to do the kind of calculation you are talking about.

Mr. BENTSEN. If you could, for me, for the future, because I have another question, if you could maybe check and do some analysis of whether it is 7 percent, 8 percent, 20 percent, something like that, because I think these numbers are thrown out quite a bit.

Mr. CRIPPEN. OK.

[The information referred to follows:]

CONGRESSIONAL BUDGET OFFICE RESPONSE TO QUESTION POSED BY REPRESENTATIVE KEN BENTSEN

The actuaries of the Social Security Administration project that the 75-year deficit in the Old- Age and Survivors and Disability Insurance [OASDI] trust funds amounts to 2.19 percent of payroll under the intermediate assumptions of the 1998 Trustees' Report. This figure means that an immediate 2.19 percentage point increase in the payroll tax, combined with real (inflation- adjusted) investment returns of 2.8 percent, would eliminate the deficit. However, most current proposals for personal accounts would not immediately increase the cash flow of the trust funds. Rather, they would reduce the income of the trust funds (or of the general government) immediately, and eventually reduce outlays by offsetting part of the personal accounts against current-law Social Security benefits.

An analysis of a hypothetical proposal to direct 2 percent of wages to personal accounts illustrates the difference. The proposal would not reduce the payroll taxes going into the trust funds, but would grant taxpayers a refundable income tax credit equal to 2 percent of their covered wages, That credit would be invested in private accounts. If the yield on those accounts equaled the government bond rate (the assumed 2.8 percent described above) less 25 basis points for administrative costs, crediting the trust funds with the reimbursements from these accounts would reduce the long-range deficit to 1. 1 5 percent of payroll, or about one-half the current-law deficit. With a real return net of administrative costs of 5.27 percent, the long-range deficit would be wiped out, leaving a surplus of 0.04 percent of payroll. This rate of return—which is consistent with the historical performance of a portfolio consisting of 60 percent stocks ¶ and 40 percent corporate bonds—would thus fill in the Social Security shortfall. But the government as a whole would still absorb a loss of 2 percent of payroll, or about $80 billion annually in today's dollars, plus the debt service on those funds. Even higher rates of return might help to offset some of those general fund costs; but the offset would be limited because after the personal accounts grew so large that they could provide a greater benefit than Social Security, the excess would presumably belong to the account owner and not to the government.

Mr. BENTSEN. Some have proposed last year and again this year in the sort of "saving Social Security" that you could bifurcate the principal and interest of the assets or the bonds within the Social Security trust fund, and that saving the principal is the property of the Social Security trust funds and thus the beneficiaries, but that you could move some of the interest owed on those bonds for use in tax cuts or spending.

Is it your understanding or your opinion or CBO's opinion that interest owed on bonds held by the trust fund—Treasury specials held by the trust fund, is the property of Social Security and thus the beneficiaries of the Social Security system, and thus if you were to allocate some of that interest so you could maybe fit a tax cut in in 2000 or 2001, or greater spending for that matter, that you would, in effect, be spending assets of the Social Security trust fund?

Mr. CRIPPEN. Part of your question is more legal than not. I can't tell you that there is a legal right or a property right or anything else about the bonds. I can tell you, however, how the current accounting would be changed if the interest was removed. We give credit to the Social Security trust fund, of course, for current and future interest payments on those securities that are held by the trust fund. If you removed that interest from that calculation, you would reduce the amount of resources going into the trust fund, and presumably you would reduce the current year of expiration—2032—to something closer. But that is all we can tell about how the numbers would work.

Mr. BENTSEN. Mathematically it would be spending part of the Social Security trust fund. Legally it would be another question, I guess?

Mr. CRIPPEN. We would certainly show it as a diminution of the trust fund. I think the trustees would show it as a diminution of the trust fund.

Mr. BENTSEN. And finally, in your opinion, if you had to rank between the difference between—in this time of surplus the difference between increasing net national savings versus consumption, either through more spending in defense/nondefense or tax cuts, or a combination thereof, as more beneficial to the economy and long-run economy as well as to trust funds like Social Security, among those two, in your opinion, what would you rank?

Mr. CRIPPEN. Well, it is not just me, as I have said here and elsewhere. One of the few things most economists—you won't find us agreeing on anything totally—agree on is that increasing national saving will help productivity and economic growth, and that is a good thing. So anything you do other than save the money should be judged against that standard: Does it help economic growth in this context more or less than saving it?

And I can't tell you whether the research or anything we know says that there ought to be some tax cuts or some spending programs that would increase economic growth more than saving. I would be skeptical. I think the standard by which you have to judge any of these initiatives is whether it could help the economy grow better than saving the money.

Mr. BENTSEN. Thank you. Thank you, Mr. Chairman.

Mr. SHAYS [presiding]. Thank you, Mr. Bentsen.

I am next in line. I am Chris Shays from Connecticut. Then we will go to Mr. Markey.

Doctor, it is nice to have you here, and I want to run through some questions fairly quickly. First, your answer is the President breaks the budget caps, and I just want to be fairly certain on this. Under OMB it is about 17, 18, depending on outlays. And you are saying it is 22 to 30, somewhere in that range, that it breaks the budget caps?

Mr. CRIPPEN. Thirty, yes, sir.

Mr. SHAYS. Does the President spend some of the so-called Social Security surplus? And my understanding is that you say about 146 million?

Mr. CRIPPEN. In every——

Mr. SHAYS. Billion, I am sorry.

Mr. CRIPPEN. We are all are stumbling.

Mr. SHAYS. Over the next 5 years, you say OMB spends about $146 billion of the surplus; is that correct?

Mr. CRIPPEN. Every year until 2008, by the OMB's own estimate, part of the Social Security trust fund doesn't get saved.

Mr. SHAYS. Does the President reform Social Security and Medicare in his budget? Does he give us any plan on how to do that?

Mr. CRIPPEN. There are some fairly traditional changes in Medicare and some proposed expansions of Social Security benefits and Medicare benefits. But there are not any details on any kind of reform in the way I think you are——

Mr. SHAYS. And does the national debt go up about a trillion dollars in the President's plan; is that accurate as well? Under his plan, it will go up about a trillion dollars?

Mr. CRIPPEN. It doesn't go up, it still goes down. But it doesn't go down as much as if you do nothing at all.

Mr. SHAYS. The national debt grows by another $1 trillion by the year 2004; is that not correct?

Mr. CRIPPEN. Not quite. The national debt is higher in 2004 than it would be if we did nothing, but debt still goes down. I still find tables where we are talking about deficits. We haven't yet crossed off deficit and put in surplus, so we have to think about this a little differently.

Debt is going down in the baseline. If we did nothing at all, debt would go down. Under the President's proposals, debt won't go down quite as much. So we are not adding to the debt, but we are not reducing it as much as we could.

Mr. SHAYS. My understanding is that the national debt, when you add both public and private, is we are still adding to the national debt until the year 2004, the year 2005; isn't that correct?

Mr. CRIPPEN. Let me be clear. The debt held by the public, which is the number that really counts for economic purposes, will decline more under the baseline than in the President's budget.

Mr. SHAYS. I know. But we are borrowing from the trust funds.

Mr. CRIPPEN. There is interfund borrowing, and there is more——

Mr. SHAYS. When I add what we are borrowing from the public and what borrowing from our funds, the obligation of our government goes up by a trillion dollars; isn't that correct?

Mr. CRIPPEN. In the transfers between funds, which are between government funds, as you are suggesting, we are lending money from one part of the budget to another, but it doesn't involve debt held by the public.

Mr. SHAYS. I understand that. I understand that. I really don't want to spend a lot of time on this part. Does the obligation of the government to pay into that fund or to pay the public—excuse me, a private debt go up by a trillion dollars by the year 2004?

Mr. CRIPPEN. The gross debt goes up. But I want to be careful, and I think we need to be, because the obligations, which are what we owe the Social Security recipients—you, me, and our parents—don't change one bit.

Mr. SHAYS. I understand.

Mr. CRIPPEN. All we are doing is moving money around, but not changing the obligation.

Mr. SHAYS. Right.

Is it true that since 1992 to 1996, the revenues of gross—the share of the gross domestic product has gone from 17.5 percent give or take up to 20.5?

Mr. CRIPPEN. Yes.

Mr. SHAYS. What are the implications of that? The implications to me are that more revenue is coming into the Federal Government, more of the gross domestic product is being devoted to the Federal Government; is that accurate?

Mr. CRIPPEN. Yes.

Mr. SHAYS. OK. I have been told it is the highest since World War II; is that accurate?

Mr. CRIPPEN. The highest since 1944, as I recall.

Mr. SHAYS. OK. Does the President increase taxes in the—in his budget or reduce taxes?

Mr. CRIPPEN. Increases.

Mr. SHAYS. OK. My understanding is that about 108 billion gross and about 72 billion net.

Mr. CRIPPEN. That sounds close, yes.

Mr. SHAYS. So the bottom line is that we are having to debate on our side of the aisle that we should cut taxes, and the President has actually proposed that we should raise taxes; is that correct?

Mr. CRIPPEN. That is correct.

Mr. SHAYS. What are the long-term implications of what the Senate has done by adding—by suggesting, suggesting—voting to increase the retirement of military employees and undo what we did in the 1980's from 40 percent at retirement after 20 years to 50 percent? What are the long-term implications of that?

Mr. CRIPPEN. I don't have our estimate of that with me. I would be happy to give it to you. But the short answer is that it considerably increases both discretionary and mandatory expenditures in the out-years. And the numbers are in the range of $10 billion a year, as I recall. But we have actually scored that bill, and I would be happy to give you the analysis of it. But it is a substantial increase in out-year spending.

Mr. SHAYS. Would someone in your office get that and be able to report to us before this hearing is over and tell us publicly what that is?

Mr. CRIPPEN. Sure.

Mr. SHAYS. Thank you very much.

[The information referred to follows:]

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 17, 1999.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

S. 4—SOLDIERS', SAILORS', AIRMEN'S, AND MARINES' BILL OF RIGHTS ACT OF 1999

As passed by the Senate on February 24, 1999

SUMMARY

On February 12, 1999, CBO prepared a cost estimate for S. 4 as reported by the Senate Committee on Armed Services. This estimate reflects the changes resulting from amendments approved by the Senate. Compared to the bill as reported, the amendments adopted by the Senate would increase direct spending by $1 billion and spending subject to appropriations by $3.8 billion over the 2000-2004 period. In 2009, S. 4 as passed would raise direct spending by $2.9 billion and discretionary spending by $6.7 billion. Because the bill would affect direct spending and revenues, pay-as-you-go procedures would apply.

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. That exclusion might apply to the provisions of this bill. In any case, the bill contains no intergovernmental or private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. The costs of this legislation fall within budget functions 050 (national defense), 570 (Medicare), 600 (income security), and 700 (veterans' affairs).

TABLE 1. ESTIMATED COSTS OF S. 4 AS PASSED BY THE SENATE

(By fiscal year, outlays in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIRECT SPENDING										
Change in Spending Under S. 4 as Reported	537	599	870	887	927	1,108	1,435	1,940	2,270	2,633
Amendments										
Radiation-exposed veterans	19	77	124	149	160	183	178	171	194	201
Dual compensation	59	62	65	68	72	75	79	82	86	90
Expand MGIB applicability	1	1	1	1	1	1	1	1	1	1
Accelerate education payments	20	4	0	0	0	0	0	0	0	0
Modify education entitlement period	5	5	5	5	5	5	5	5	5	5
Demonstration of Medicare subvention	10	35	35	10	0	0	0	0	0	0
Tricare provisions	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Subtotal	114	184	230	233	238	264	263	259	286	297

TABLE 1. ESTIMATED COSTS OF S. 4 AS PASSED BY THE SENATE—Continued

(By fiscal year, outlays in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Change in Spending Under S. 4 as Passed	651	783	1,100	1,120	1,165	1,372	1,698	2,199	2,556	2,930
REVENUES										
Change in Revenues Under S. 4 as Reported	−10	−44	−67	−86	−103	−113	−120	−127	−134	−141
Amendment										
Thrift Savings Plan	0	−1	−3	−3	−4	−4	−5	−5	−5	−5
Change in Revenues Under S. 4 as Passed	−10	−45	−70	−89	−107	−117	−125	−132	−139	−146
SPENDING SUBJECT TO APPROPRIATION										
Change in Spending Under S. 4 as Reported	1,075	2,164	3,103	3,487	3,963	4,354	4,832	5,400	5,928	6,520
Amendments										
Radiation-exposed veterans	5	10	17	18	20	21	22	23	25	26
Tricare provisions	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Special subsistence allowance	22	44	44	44	44	0	0	0	0	0
Increase in special pay (non-aviation)	47	47	53	62	74	89	105	113	120	123
Increase in special pay (aviation)	65	65	65	65	65	65	65	65	65	65
Extend bonuses and special pay (active)	368	662	836	592	379	230	109	27	3	0
Extend special pay (reserve)	5	5	5	5	5	5	5	5	5	5
Increase tuition assistance	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
Special supplemental nutrition pay	13	15	15	15	1	0	0	0	0	0
Subtotal	525	848	1,035	801	588	410	306	233	218	219
Change in Spending Under S. 4 as Passed	1,600	3,012	4,138	4,288	4,551	4,764	5,138	5,633	6,146	6,739

Sources: Congressional Budget Office and Joint Committee on Taxation.

a. Section 601 contains several provisions that would affect costs of DoD's health program known as Tricare. CBO does not have the information to estimate the costs of these provisions.

b. Less than $500,000.

BASIS OF ESTIMATE

Amendments to the bill would affect direct spending, revenues, and spending subject to appropriation.

DISABILITY COMPENSATION AND MEDICAL CARE FOR RADIATION-EXPOSED VETERANS

Section 603 would add lung cancer, colon cancer, and tumors of the brain and central nervous system to the list of 15 diseases currently presumed to be connected to military service for certain veterans who were exposed to nuclear radiation. Data from the Defense Special Weapons Agency (DSWA) indicate that approximately 410,000 military, civilian, and contract personnel employed by the Department of Defense (DoD) participated in atmospheric nuclear tests or in the post-war occupation of Hiroshima and Nagasaki, Japan. CBO estimates that about 200,000 of these veterans are alive today. By requiring a presumption that, for these veterans, the three illnesses are service-connected, the bill would add to the number of radiation-exposed veterans who are eligible for disability compensation or whose spouses are eligible for dependency and indemnity compensation benefits.

To estimate the caseload of veterans having each disease, CBO used age-specific incidence and mortality rates for each disease from the National Cancer Institute. Recognizing that a small number of affected veterans and survivors may draw benefits under current law, that not all potential new beneficiaries would participate, and that it would take about 3 years to reach the full estimated participation rate, CBO estimates that, of the 18,500 veterans and survivors who would be eligible for benefits in 2000, about 3,700 would receive benefits in that year. CBO used data from the Department of Veterans Affairs (VA) that was specific to the three diseases to calculate the average compensation payment to veterans.

CBO estimates that enacting the bill would increase direct spending by $19 million in 2000 and by $529 million over the 2000-2004 period. In addition, it would increase discretionary spending for medical care by $5 million in 2000 and by $70 million over the 5-year period, assuming appropriation of the necessary amounts.

Dual Compensation

Section 204 would repeal the prohibition on a military retiree receiving a full annuity plus income from Federal civilian employment. Currently about 6,000 military retirees receive an average of $800 a month less in retirement benefits because of this prohibition. CBO expects that the number of such retirees will grow by about 150 individuals a year, based on information provided by DoD, and that per capita costs would grow by the change in the Consumer Price Index. CBO estimates that the provision would cost $59 million in 2000 and $739 million over the 2000-2009 period by raising benefit payments out of the military retirement trust fund.

Education Benefits

Three amendments to S. 4 would increase direct spending for education benefits by $26 million in 2000 and $84 million over the 2000-2009 period, compared to the bill as reported.

Expand Montgomery GI Bill Applicability. Section 305 would extend Montgomery GI Bill (MGIB) benefits to cover preparatory courses for college or graduate school entrance exams. Veterans who would otherwise consume their entire entitlement would forgo a payment at the end of their training if they use the benefit under this section, but for all other veterans section 305 would add to spending. CBO estimates that this provision would increase direct spending by about $1 million a year. The estimate assumes that about 2,000 participants would receive an average benefit of about $400 for these courses, based on their expected average duration.

Accelerate Education Payments. Section 401 would permit members of the selected reserve to receive a lump-sum payment for benefits they would receive monthly over the term of their training, for example, a semester in college or the period of a course's instruction for other forms of training. CBO estimates that this provision would increase direct spending in 2000 by $20 million and by $4 million in 2001. Increased costs would occur initially as payments from one fiscal year are made in the preceding year. There would be no net effect in subsequent years because in a given year payments shifted to the preceding year would be offset by payments shifted from the following year.

Modify Education Entitlement Period. Section 402 would extend the entitlement period for MGIB benefits for certain members of the selected reserve. Selected reserve members who entered service after July 1985 and agree to serve for 6 years are eligible for MGIB benefits under chapter 1606 of title 10. Under current law a beneficiary may receive assistance during the 10-year period following the day the reservist becomes eligible, but the individual must be in the reserves during that time. The amendment would permit selected reservists who serve longer than 10 years to use their MGIB benefits while they remain in service and for 5 years after the day they are separated from the selected reserve. CBO estimates that section 402 would increase direct spending by $5 million in 2001 and $50 million over the 2000-2009 period.

Health Care

The amendments approved by the Senate involve changes to DoD's health care program and payments by Medicare for veterans' medical care.

Demonstration of Medicare Subvention. Section 604 would establish a 3-year demonstration project in which Medicare would pay the Department of Veterans Affairs (VA) for Medicare-covered services furnished in VA facilities to certain Medicare-eligible veterans. The demonstration project would be operated in up to 10 of the VA's 22 regions (Veterans Integrated Services Networks), beginning on January 1, 2000. Medicare would pay for Medicare-covered services furnished to veterans who are not entitled to medical care from the VA on the basis of service-connected disability or income (Category C veterans). Medicare payments to VA would be limited to $50 million.

The bill would require that VA maintain its current-law level of effort with respect to the value to Medicare of Medicare-covered services furnished to Category

C veterans and paid for with non-Medicare funds. However, CBO has concluded that Medicare spending would rise due to erosion of VA's level of effort. That conclusion is based on the inherent tension between VA's mission and satisfaction of the maintenance of effort requirement, the inability to establish a reliable measure of effort, and the lack of an effective mechanism to monitor and enforce compliance with that requirement.[1] CBO estimates that enacting the bill would increase direct spending for Medicare by $10 million in 2000 and by $90 million over the 2000-2004 period.

Tricare Provisions. Section 602 would make several changes to DoD's health care program known as Tricare. Some provisions would overlap with current law, while other provisions would leave DoD with discretion over whether and how to implement them. CBO does not have the information to estimate the budgetary impact, but it does not believe the budgetary impact would be great. The provisions that overlap with current law would have no budgetary impact, and the other provisions, with one exception, would have a minor impact because CBO expects that DoD would use its discretion to maintain its current practices.

One provision would allow DoD to bill third-party insurers using Medicare rates rather than what current law refers to as reasonable costs. According to DoD, Medicare rates are usually slightly lower than DoD's costs, but third-party payers are more familiar with Medicare rates. That familiarity may make them more likely to approve a claim from DoD, thereby offsetting some of the lost reimbursements due to lower rates per claim. Thus, CBO expects there to be a relatively small net budgetary effect from this provision, but it cannot estimate the precise impact.

MILITARY COMPENSATION

Several amendments to S.4 would raise military compensation and extend new benefits to improve recruitment and retention.

Thrift Savings Plan. The version of the bill reported by the Senate Committee on Armed Services would allow active-duty members to participate in the Thrift Savings Plan. An amendment approved by the Senate would extend that benefit to members of the selected reserve. The Joint Committee on Taxation estimates that the amendment would result in a tax deferral on reservist pay of up to $5 million annually by 2006.

Special Subsistence Allowance. As reported, the bill contains a provision to offer a Special Subsistence Allowance to servicemembers who qualify for the Food Stamp program. Because that program includes housing allowances in calculating gross income, a servicemember's eligibility can depend on whether his family lives on or off base. As amended by the Senate, eligibility criteria for the Special Subsistence Allowance would exclude housing allowance payments. CBO estimates that the increase in participation would raise annual costs from $26 million to $70 million.

Increases in Special Pay. Sections 105 through 113 would increase special pays for active-duty servicemembers with specific skills. Under those provisions, additional funding would go to aviators, certain naval officers, servicemembers performing diving duty, and individuals with proficiency in foreign languages. CBO estimates that in 2000 the increases would cost about $47 million and $65 million for non-aviation and aviation specialties, respectively.

Extended Bonuses and Special Pay. Sections 114, 115, and 116 would renew authorities for special pays and bonuses that will expire in December 1999 under current law. The renewal of payments for active-duty members would raise outlays by about $368 million in 2000. Because many of those authorities involve multiyear contracts, the 3-year renewal in S. 4 would raise costs through 2008. Section 118 would extend special-duty-assignment pay to reservists. That provision would result in an additional $5 million of discretionary costs.

Increase Tuition Assistance. Section 104 would allow full funding of tuition for servicemembers who are deployed overseas on contingency operations. Currently, DoD is required to fund only 75 percent of these costs. CBO estimates that funding for additional tuition would total less than $500,000 annually.

SPECIAL SUPPLEMENTAL NUTRITION PAY

The bill would require DoD to carry out the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) for military personnel and civilians living overseas. The WIC program is operated under the Food and Nutrition Service of the Department of Agriculture (USDA), and provides food assistance and nutri-

[1] See CBO cost estimate for H.R. 3828, Veterans Medicare Access Improvement Act of 1998, May 29, 1998.

tion services to pregnant and post-partum women and children up to 5 years of age who meet income and nutrition eligibility guidelines. The provision would require USDA to provide $10 million and such funds as are necessary from its WIC appropriation to DoD for the supplemental food costs of the overseas WIC program.

Assuming DoD retains current income and nutrition eligibility rules, CBO estimates that about 33,000 women and children would participate in the program in an average month with total food costs of $10 million in 2000 and $44 million over the 2000-2004 period. Administrative and nutrition services for the program would be paid out of money available to DoD. Those costs are typically 25 percent of the total costs for the WIC program. Based on the estimated food costs, administrative costs would be $4 million in 2000 and $16 million over the 2000-2004 period.

The estimated participation is based on information from DoD and USDA. DoD estimates that about 31,000 children live overseas and meet age and household income requirements for assistance. In addition, another 12,000 women would be eligible based on rules of thumb used for this program. Assuming that 9,000 of the eligible children are up to 1 year of age, those factors would suggest that 12,000 pregnant, post-partum, and breast-feeding women would be eligible. Thus, a total of about 43,000 women and children would be eligible for assistance.

About 80 percent of those 43,000 individuals would also be determined to be at nutritional risk, and CBO assumes 95 percent of those eligible would participate, for a total of 33,000 participants in an average month. The estimated average monthly food cost of about $28 per month per participant is based on a DoD estimate of the cost of an average WIC food package in military commissaries, adjusted for inflation.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that would result from S. 4 as passed by the Senate (not just the amendments) that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding 4 years are counted.

By Fiscal Year, in Millions of Dollars

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	651	783	1,100	1,120	1,165	1,372	1,698	2,199	2,556	2,930
Changes in receipts	0	−10	−45	−70	−89	−107	−117	−125	−132	−139	−146

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. That exclusion might apply to the provisions of this bill. In any case, the bill contains no intergovernmental or private-sector mandates.

PREVIOUS CBO ESTIMATE

On February 12, 1999, CBO prepared a cost estimate for S. 4 as reported by the Senate Committee on Armed Services. This estimate reflects the changes resulting from amendments approved by the Senate.

Estimate prepared by—Federal Cost: Jeannette Deshong (military personnel), Dawn Sauter (military retirement and veterans' benefits), Valerie Baxter (food stamps), and Thomas Bradley (Medicare subvention)

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: R. William Thomas

Estimate approved by:

PAUL N. VAN DE WATER,
Assistant Director for Budget Analysis.

Mr. SHAYS. At this time, Mr. Markey, do you have any questions?

Mr. MARKEY. Thank you.

Mr. Crippen, I just want to go back over a little history to bring us up to today. The principal obligation of CBO is to provide unbiased and accurate data and analysis to the Congress regarding the Federal budget. We've got to get the numbers right. In recent years CBO has all too often fallen short in this area.

For example, back in 1997, CBO was projecting a continued budget deficit. In February 1997, the CBO projected the fiscal year 1997 deficit to be $115 billion. So as this committee was meeting in 1997, there was $115 billion deficit for that year. CBO failed to issue its midyear projections, as did OMB. Then after the budget deal was cut in July, following the budget negotiations, which found 30 billion extra bucks to take care of both sides, that led to the August deal, then CBO issues a new projection that the deficit is only going to be 37 billion for that year. And in the end, the deficit for that year was only 22 billion. So in the course of a 4-, 5-month period, the CBO was off by a huge amount.

Now, that led to a decision made in this committee and on the floor of Congress that Medicare would be cut $115 billion, accommodating in part a $90 billion tax cut that went largely to the wealthy, all based upon fraudulent, erroneous numbers, contemporaneous numbers. I am not talking about projections 15 years from now outside of your window. I am talking about that year, that month, on your desk—not your desk, your predecessor's desk.

Well, the consequences for this committee are choices that ultimately have moral implications, because they affect ordinary families as we cut these programs, Medicare specifically.

So here we are 2 years later. I will give you an example of what happened. There is some big mystery here that Medicare growth is at zero right now. So I went on, I visited these hospitals. I represent a blue collar area, Malden, Medford, Everett, Melrose, Wakefield, Stoneham, in my home area. Jim, Jim is from Natick. We have to export Congressmen from Massachusetts. There is not enough room for everybody. Connie Morella, Jim Moran, we have got about 20 extras.

Now, what you have got is a situation where the cut in home health care, the visits that go into homes that have spouses with Alzheimer's, with Parkinson's, with other diseases—here is what happened since that cut: 1997, 470,000 visits in a five-community area; fiscal year 1998, 332,000 visits, helping out this spouse, giving him a break for a couple of hours; fiscal year 1999, 260,000 visits, visiting nurses helping out the spouse.

These people are elderly. We have this growing population of people with Alzheimer's, with Parkinson's. This is just an actuarial reality. And now here is what we are saying to them, because these people are heroes, they are keeping a family member, a spouse with Alzheimer's, with Parkinson's, with some other disease in the home. And so the balanced budget amendment says to them, we are so concerned because of the fraudulent numbers that come out of CBO, that we are going to slash this program. And so instead of increasing the amount of help we give to these heroes in their home, we cut the program.

These people are heroes, but heroes need help, and they are getting less and less help because of the numbers which CBO gave us in 1997. These families are shouldering a burden which is almost unimaginable; these spouses over the age of 60, 65, 70, 75, 80, keeping a spouse in their home, taking care of them 22 of the 24 hours a day. And they cut in half the number of hours in the course of a day of a week that they are going to get somebody visiting their house; instead of 2 hours, 1 hour a day. I don't think that is right.

And I think that the wonderful talk that we can utter about how Medicare is down to zero percent growth can be attributed largely to the fraudulent numbers which were given to this committee in—deliberately—I accused the CBO of giving us deliberately wrong numbers in 1997. I accused the whole process in 1997 of having been fraudulent.

Those numbers were available. If we knew about it, we would have made different decisions about how deeply we cut into those Medicare programs, especially home health care programs and programs like that that help people in their homes. Deliberately fraudulent. People knew. It was a moral choice that had to be made.

And as we go forward now, I hope that CBO understands the impact on families. These aren't just numbers. This dramatic reduction in the number of people in their homes that don't have help now, have much less help, is something that dramatically affects these people, these old people trying to do their best.

So my point to you, Mr. Crippen, is this: We need the facts. You are Joe Friday. Of all of your responsibilities, you give us the facts, and we will make the moral choices. We will make the political choices. And if you do that one job for us, Mr. Crippen, and you do it honestly, you will have discharged your moral and political responsibility. We don't need anything else from you. Nothing.

And then it is on our shoulders to make the decisions which affect every family in America. There are too many good things which we can do that just aren't going to go undischarged.

So my question to you, Mr. Crippen, taking over at the CBO——

Chairman KASICH [presiding]. Mr. Markey, let the record show that the Chairman did not interrupt the passionate man's, you know, exclamations here, and we appreciate it, but I have got to tell you, I will let you ask the question, because you have been a buddy of mine for 15 years. Make it short, would you?

Mr. MARKEY. Why were the numbers so wrong in 1997 and then in the 1997-1998 fiscal year, in your opinion, Mr. Crippen?

Mr. CRIPPEN. Mr. Markey, obviously we can all choose different words. I don't think that at any time in the past CBO—and certainly the folks that are there now and with me today—has ever given you fraudulent numbers that were knowingly wrong. I don't believe that. Even though I wasn't there, I can tell you from my work with them so far, only a month or so, that they are of the highest integrity and keep me straight most days.

I will say—and this is cold comfort for your larger point—that CBO was no worse and, in fact, was much better than many other forecasters. We all missed the ball on a number of occasions, and it wasn't just OMB or just CBO. There are many folks out there, including some of my friends on Wall Street, who do a new forecast every month, and, of course, as you get closer to reality, reality bites you.

Mr. MARKEY. Mr. Crippen, I called four economists in May in the leading Wall Street firms, and they all told me that the budget could very well balance itself by the end of the year, and they didn't know why CBO was not reflecting that. I called the chief economists at the leading firms. So I don't agree with you that those numbers weren't available.

Mr. CRIPPEN. What I was saying is that they have the luxury of incorporating new evidence every day. We make a baseline projection in January. We have a chance to update it with the changes in the President's budget, although that is rarely done, and then we do another forecast in July. And we are forecasting 18 months ahead.

Mr. MARKEY. They didn't redo it in May of—July of 1997? That is the point I am trying to make, sir. It wasn't redone.

Mr. CRIPPEN. OK.

Mr. MARKEY. Even though the numbers were available. What are you doing to correct that?

Mr. CRIPPEN. Well, we are going to do our best, and I know there are places where we can do a better job of estimating, but we will never give you fraudulent numbers. And I really do want to attest to, even in my short time there, the integrity of these folks. They are not in the business of making moral judgments, as you said. They are in the business of providing you with the best estimates we can. We will try to do better. We have under way a number of efforts to do better.

Mr. MARKEY. Mr. Chairman, I have been waiting 3 years to get it off my chest. I appreciate that.

Chairman KASICH. I remember once when Jim Wright, the Speaker, was making a speech on Central America, and somebody asked him to yield, and he said no one ever asked Beethoven to yield, no one ever asked Monet to yield. I am not putting you in that category, Eddie. OK.

Listen, I want to say one thing. There are a lot of guys here. I think what we have got to do at the next hearing we do, I am going to try, is—we do this on the basis of who gets here first. But, frankly—I was short today, I think pretty good. I want to start recognizing people down here at the lower level.

Spratt was long, but I am going to recognize people at the lower level, so when you come, it is meaningful, and you don't have to sit here and listen to everybody else ask questions and pontificate from time to time. So thank you.

Mr. SPRATT. The chairman is ad-libbing.

Chairman KASICH. I am trying to cut that out as well.

Mr. Hoekstra is recognized for 5 minutes.

Mr. HOEKSTRA. I thank my colleague for the wonderful lead-in. But the President, in his State of the Union speech, he stated, if we work together, we can secure Medicare for the next two decades, and what was seen as the greatest need is affordable prescription drugs.

Does the budget have any new funding for prescription drugs for Medicare beneficiaries?

Mr. CRIPPEN. No, there is absolutely nothing in the budget, not even words, about the prescription drug benefit that he mentioned in the State of the Union Address. So we have no knowledge of either the benefit itself or how it might be paid for.

Mr. HOEKSTRA. Isn't it true that instead of adding a Medicare prescription drug benefit, that the President, in fact, cuts reimbursements for prescription drugs now covered by Medicare?

Mr. CRIPPEN. Yes, there is a reduction in the prices for some of the in-patient drugs that are provided.

Mr. HOEKSTRA. So we are actually reducing the prescription drug benefit rather than increasing it or expanding it?

Mr. CRIPPEN. Yes, the current drug benefit is quite limited, as you well know. It is primarily for drugs administered by doctors or in offices, like chemotherapy and those kinds of things. So it is a very limited benefit now. It is a small number that he proposes should get smaller, yes.

Mr. HOEKSTRA. As I said, it is a small benefit now, and it is getting smaller, at least if we implement the budget?

Mr. CRIPPEN. At least the prices are, yes.

Mr. HOEKSTRA. OK. And if we add a prescription drug benefit, how would that affect the financial stability of the Medicare program?

Mr. CRIPPEN. Well, presumably if there are no offsets, it would dramatically increase the—let me step back. It depends on how it is done.

If the increase is all in Part B, which is the current outpatient/doctor program under current law, about 75 percent of it would be funded by general taxpayer revenues and about 25 percent by premiums. And so if the premiums went up for beneficiaries, and the taxpayers forked over the other 75 percent, the benefit might not affect the trust fund of Medicare at all.

So, again, it depends on how it is structured. Presumably it would be in Part B, but if it was in Part A, it could, of course, deplete the Medicare HI trust fund faster than under current law.

Mr. HOEKSTRA. Thank you.

I have got to go back to the debt issue. The debt that is held by the government, do we credit the government with interest on that; is there an interest expense?

Mr. CRIPPEN. That, too, is a net wash. It is one hand of the government paying interest to the other hand. That is why we say the debt held inside the government doesn't matter a great deal in terms of its effect on the economy or even the budget, because it is like paying interest to yourself. You take it out of one pocket and put it in the other.

Mr. HOEKSTRA. I find this very interesting, because we do count—when we take a look at the long-term solvency of Social Security, don't we calculate in the debt that Social Security holds and the debt or the interest that has been accumulated on that debt that is "owed" by the general fund to Social Security?

Mr. CRIPPEN. Yes, and future interest payments on those.

Mr. HOEKSTRA. And future interest payments.

Mr. CRIPPEN. Right. But those interest payments are made from the general fund of the Treasury to Social Security—it is a trust fund. Again, for unified budget surpluses, put the two together and it is a wash—one pocket to the other.

Mr. HOEKSTRA. Would you have a feeling as to whether that is even a meaningful exercise then of calculating government-held debt and interest that we pay ourselves? If it is just a wash anyway, if it really has no meaning in the economy, if it is taking money out of one pocket and putting it into the other pocket, I am getting the belief that maybe we shouldn't be doing it at all. And it is a——

Mr. CRIPPEN. I have lots of feelings. I probably shouldn't have a feeling about this. The securities that the trust fund holds are interest-bearing securities. If they were any other type of investment, they would have a return as well. So the interest payment to the trust fund—while it comes out of another part of the government because the debt comes out of another part of the government—is a wash in the unified budget. But it is not unrealistic to say that the debt held by the trust fund should get at least a Treasury rate of return.

If those securities were not Treasuries—if they were stock or corporate bonds or anything else—they would have a rate of return not unlike what the President is proposing with the equity purchases in his budget. So it is not unrealistic, phoney, or any of those things to say that interest should be paid into the trust fund. But again, from the macroeconomic standpoint—looking at the big budget picture, unified budget—it is paying interest from the non-Social Security part of the budget to Social Security. You put the two together, and it washes. I don't know if I helped any, but——

Mr. HOEKSTRA. So I was waiting for an explanation as to why we actually even calculate a Social Security trust fund and the interest payments if it really has no economic impact, and you know the interest is going from one government account to another.

Mr. CRIPPEN. The trust fund accounting is tricky. It complicates things, but it doesn't have a real effect on programs. It gives some guidance as to whether the funding sources—the dedicated funding source in this case—and the outlays (the obligations) match. It lets us know when the program is out of balance because we have obligations exceeding the income.

Having said that, though, the trust fund itself doesn't tell you a lot about the budget, the resources, the economy. As I have testified before, it doesn't matter much when the Social Security trust fund runs out of money—in 2032 or, under the President's budget, 2055. What potentially matters is when we start taking in less payroll taxes than we are paying out.

So trust fund accounting may have important political consequences. It certainly gives you policy guidance as to whether a program is in balance or not, but it doesn't give you much guidance as to the effects on the economy or the state of the budget or lots of other things.

Mr. HOEKSTRA. Good, thank you.

I yield back.

Chairman KASICH. Ms. Baldwin.

Ms. BALDWIN. No, that is OK.

Chairman KASICH. Let the record reflect that that has never happened before.

The gentleman from Virginia.

Mr. MORAN. Well, thank you, Mr. Chairman.

Mr. Kasich, I have some interesting figures I would like to talk about, the defense budget, because you go into one meeting and you hear one thing, and another meeting from another thing, and even in the same meeting you hear different things from different sides of the aisle. And the chairman and ranking member would be free to respond to this as well.

If Mr. Crippen isn't familiar with this, the President's budget for fiscal year 1998 requested $1.383 trillion in budget authority for defense between fiscal year 1998 and 2002. That was 12.3 greater than the fiscal year 1997 budget resolution.

Then we came in with the balanced budget agreement. For fiscal year 1998, we added 2.6 billion, which was 16.7 more than the resolution that had been proposed out of this committee that year. The next year, the President's budget for fiscal year 1999 requested 3 billion more for defense between fiscal year 1999 and 2003 than either the House or the Senate resolutions. And this year, the President's budget provides 55 billion more in BA for defense between fiscal year 2000 and 2003 than either the House or the Senate budget resolutions that were proposed last year.

Now, you know, we are hearing that the President is shortchanging defense, but it seems that the balanced budget agreement and the proposals that we have gotten the last few years are actually significantly less than the President has asked for. But the real problem comes up this year, and I think that given the bipartisan commitment to defense—to increasing defense, that the problem is going to be felt in nondefense discretionary. And this is something that I am sure you must have given some thought to, Dr. Crippen, because if we stick with the outlay caps that are in the balanced budget agreement, which were basically frozen in fiscal year 1999 levels, then by your estimate we are $12 billion short of the budget cap—or the—we will bust the budget caps by 12 billion. And under OMB scoring, you are figuring that OMB scoring is $10 billion too short in terms of outlays.

Mr. CRIPPEN. Correct.

Mr. MORAN. The President is suggesting 275. You are suggesting approximately 285 should be the outlay figure. So if the caps are not raised, and the firewalls come down, the nondefense discretionary programs have to be cut by about $21 billion by your estimate, right? Is that not correct?

Mr. CRIPPEN. From the President's request, yes, but not necessarily from the baseline or this year's spending or anything like that. All of our numbers are based on the President's budget.

Mr. MORAN. Well, that is what I want to get at. You have shown the charts here, but what I would like to get behind are the broad numbers that you are showing here.

Mr. CRIPPEN. Sure.

Mr. MORAN. Just focus a bit on defense, because I think that is where the real problem is going to come. It is the total part of the budget, and the real issue is going to be between defense and nondefense discretionary programs. And if we are committed to funding defense at the level that either the President has proposed or the Senate has proposed, which, I have the numbers for that, is much greater not just this year, but particularly in the next—over the next 5 years, how much are we going to have to bust the—how much are we—number 1, how much will we have to bust the balanced budget agreement caps for defense this year in outlays; and, number 2, how much are we going to have to take out of nondefense discretionary programs in order to meet that commitment to defense?

Mr. CRIPPEN. Let me start by saying, as you suggest, that there are a lot of numbers, and every meeting you go into or out of, you hear a different story; increase, decrease. That is why we have a baseline. Our baseline reflects what the Congress gave to defense last year, and all of our measurements are relative to that baseline in terms of increase/decrease.

The defense spending in the President's budget is contingent on getting Social Security reform. Even so, the President's budget stays pretty close to baseline.

That is why we have a baseline. But the point is that if you compare the President's budget with our baseline, there are no increases.

Let's go to the question of the outlays. We think that the defense budget proposed by the President will spend $10 billion more than he does. That $10 billion, of course, gets scored against the cap, as you have said.

We think that the President's budget is a total of $30 billion over the caps. So it is not just the defense piece that is blowing the caps: $20 billion of other stuff is blowing the caps as well. Part of that the President would like you to offset with nondiscretionary resources. The other part is the difference in outlays. But the cap doesn't have to be busted; it is up to you to change it or keep it. According to our analysis, if you give the President the amount of budget authority he has asked for in his budget, there will be $10 billion more in outlays than his budget shows. You would, therefore, have to reduce outlays somewhere else in the President's budget in order to stay under the caps. That is not baseline, Mr. Moran; it is from the President's budget.

Mr. MORAN. OK. I just wanted to put this in context. Well, that is up to the Member who is controlling the time. But the issue here—first of all——

Mr. SMITH [presiding]. That comes way down to here.

Mr. MORAN. You are controlling time.

Mr. SMITH. Ask another question.

Mr. MORAN. Let me pose the point to you. There is not going to be any Social Security change, legislative change, this year. We all know that, and we are going to talk about it a lot, but it is not going to happen. So the real issue that is going to confront this committee, I think, more than any other issue is how we pay for the commitment to increase defense spending and where it comes from.

And it would appear that, as we see here, we are talking about busting the budget caps that we agreed on last year by 30 billion. Two-thirds of that would have to be for defense, because it is the outlays that require the—that would raise a point of order. And I am just getting—trying to get a sense of how we are going to do that, and if we don't bust the budget caps, we have got a figure out where we take it from the nondefense discretionary programs, and that is a real problem, and it is much more immediate than talking about how we reform the whole Social Security System.

That is all. Thank you.

Mr. SMITH. Mr. Fletcher for 5 minutes.

Mr. FLETCHER. Thank you, Mr. Chairman.

And, Dr. Crippen, let me just say we certainly appreciate your analysis of the budget. And looking over it, I am going to just restate some things that I understand from it and then ask a few questions.

First of all, it looks like he does breach or blow the budget caps by about 116 billion over 5 years. This year, and I know that the question is there, I understand he is really only putting about 4 billion of that into defense. Others come about by reduced spending and some other things, fuel costs, et cetera, even though the forces, Armed Forces, have asked for 21 billion to really do what they need to do, to maintain equipment they have, and that doesn't even include any new programs or missile defense.

Also we said last year—and remember saying that he wanted to spend 100 percent of the surplus—the President said that—in the State of the Union, it was 62 percent, and now it looks like in this budget he spends about 146 billion of the budget surplus over 5 years, when he originally said he wanted to use 100 percent for Social Security. He also adds about 314 billion to public debt by 2004; is that correct, or not?

Mr. CRIPPEN. It sounds about right. I have to look at the table.

Mr. FLETCHER. That is public debt by 2004, which is much more than what it would be if we continued what we are doing right now?

Mr. CRIPPEN. Right.

Mr. FLETCHER. The way I do the accounting at home, if I owe somebody something, and we have a legal debt to the Social Security trust fund, and even though that is considered private debt, the interest there is a legal obligation that we have that is going to be realized when the recipients grow to a number that our outlays are going to be much greater.

So it is actually a real debt, it may not just affect the economy immediately. But it is a real debt, it is a debt that we are leaving to our children, and I think that is what is important. It is not just that we have a debt that we can hide with a lot of funny money and funny shifting of numbers and papers. It is actually a $1-trillion increase in total debt that we are leaving to our children. And that is what this budget does, and that is unfathomable to me that I am going to leave my children and my grandchildren a $1-trillion increase in debt which is in addition to what we have now.

So I think that is significant. And even though it may not impact the economy, I think that is a very significant concern.

Additionally, when I look at Medicare, and I know in the Medicare Task Force right now, there is going—they are deadlocked and not getting a report out because the President's appointees are holding it up over the prescriptive drugs. They want to make sure we provide something for that. Even though I think all of the other is done on a bipartisan way, they are supporting the report that they are about—Senator Breaux's—that they are about to approve.

And yet we see here in this budget, first of all, there is no increase funding in Medicare. There is increase in IOUs again. There is really no real increase in money put into the Medicare fund; is that correct?

Mr. CRIPPEN. Correct. The transfers do affect the Medicare trust fund balances and push them out, but there is no change in the obligation of the system or in the revenues coming into it.

Mr. FLETCHER. Even though we have got rural hospitals that are really struggling now, and we have got a President that says he is actually holding up a report from the Medicare Task Force, and he has said in his State of the Union that he wants to provide prescriptive drugs, we have got actually a 1.3—or I guess it is a decrease in—how much decrease is it that he is providing for prescriptive drugs? Is it $1.3 billion over 5 years?

Mr. CRIPPEN. That sounds about right. It is a small amount because of the small program, but yes.

Mr. FLETCHER. It is still a substantial amount. And those are drugs that deal with cancer and renal dialysis and very life-threatening illnesses that they are dealing with that he is decreasing prescriptive drug support for. So I find some great inconsistencies in his budget with what he actually proposes to do and what he says. And I am very concerned that there is absolutely no Medicare reform here to provide better coverage, provide better—more prescriptive authority.

Also, you know, we have about 60 percent of the seniors that now are covered with prescriptive drugs, if you exclude the Medicaid coverage, and if you include those that have their own prescriptive drug authorities, and I don't see any plan when he talks about providing prescriptive authority to capture that money that is taken there, which would be a tremendous amount of savings.

So with that in mind, I just wanted to make those statements and confirm my understanding of the budget. And thank you very much.

Mr. SMITH. Mr. McDermott for 5 minutes.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

First of all, I have a yes or no question. Is it true there is no on-budget surplus until 2001?

Mr. CRIPPEN. Yes.

Mr. MCDERMOTT. Therefore any tax cut that affects 2000 or 2001 would be out of the Social Security surplus?

Mr. CRIPPEN. Well, there is no——

Mr. MCDERMOTT. Wherever it came from, it would come out of the surplus in Social Security, right?

Mr. CRIPPEN. I want to answer you, but I am not following you. Try it one more time, and I will see if I can.

Mr. MCDERMOTT. If there is no on-budget surplus, if we give a tax break, where does it come from? It comes out of the Social Security surplus?

Mr. CRIPPEN. Right.

Mr. MCDERMOTT. OK.

Mr. CRIPPEN. Right.

Mr. MCDERMOTT. Fine, thank you.

Now the next question I have, and that one is more complicated, because I read your letter to the Medicare Commission I heard referred to here, the Thomas-Breaux approach was presented to you to analyze, and you analyzed it and wrote this on the 18th of February: "Traditional Medicare would adopt the same tools that private plans use to manage costs. Cost-cutting or revenue-raising strategies might include increases in premium and cost-sharing requirements and reductions in covered benefits.'' And you went on to say that, ''the government's contribution would depend on the premium charge by each health plan, but would be capped.''

Now, is that your understanding of what was presented to you to analyze, and doesn't that make it a defined contribution rather than a defined benefit program?

Mr. CRIPPEN. It was certainly our understanding at the time, as we say both in the letter and in the accompanying analysis. A lot of details will matter, but in the main, your characterization is correct; at some point you would have to have a restricted amount of money or resources going into the traditional program.

Mr. MCDERMOTT. So you were analyzing a diagram produced by Mr. Thomas that would reduce benefits or increase premiums on the senior citizens in this country who stay in the managed care— or in the regular traditional fee-for-service in which 84 percent of seniors now are; is that correct?

Mr. CRIPPEN. What we are assuming, Mr. McDermott, is that the Health Care Financing Administration [HCFA], as the manager of the traditional program, needs to have the same kinds of tools the private sector would have in order to compete at all. We believe, as the letter says, that introducing competition into the traditional side—which, as you know, is the last fee-for-the-service program— could actually save some money.

That doesn't necessarily mean that you have to raise taxes or raise premiums or cut benefits. There are a lot of efficiencies to be had. Either in the cover letter or the accompanying analysis, we point out that there are still almost twice as many hospital beds in this country as we need, and a lot of estimates point to an excess of a quarter of a million or so doctors.

Mr. MCDERMOTT. So you are anticipating closing rural hospitals, or are you closing them in the cities; which place would you close them?

Mr. CRIPPEN. I don't have a preference. All I am suggesting is that a lot of excess capacity exists, so it is reasonable to think that some costs could be reduced without cutting benefits or raising premiums. A lot of overhead, as you know, is required to keep the health care system running.

Mr. MCDERMOTT. What I found difficult listening to your testimony is that the Chairman of the Commission said he never gave you specs that included these things. He said your analysis was pulled out of thin air essentially, because he said he never told you to assume premium increases or benefit reductions.

I am trying to resolve a conflict in my own mind when the Chairman and the two Chairs say, this isn't what we sent over to CBO, and yet you write this letter. I don't think you would risk your job doing an analysis on something without having some basis for thinking that. From where is this confusion coming? Why do they say, we never intended them to give us that?

Mr. CRIPPEN. As I think the attachment to the letter made pretty clear, we had to make a number of assumptions to reach any kind of a conclusion. As you know from the way that I structured the letter, there are some questions that should be asked of any reform proposal.

But in the attachment, we were very clear about the assumptions we made in order to get to where we thought we had to be. Now, some of those assumptions were based on guesses. Others were based on public statements from the Commission, the staff.

If you are asking whether we received a package of material which we then used in our analysis, the answer is no. But we certainly intended to be very clear in the attachment about where we were making assumptions.

Mr. MCDERMOTT. So anybody who comes to the conclusion or asserts the conclusion that there are savings has to assume your assumptions to come up to that line; would that be correct? And you would have to come to—you would have to have those assumptions to save money in the program, wouldn't you, by changing to the premium support?

Mr. CRIPPEN. Some of the assumptions, yes. I don't agree that we need to necessarily assume that it is going to cut benefits or increase premiums. I said there is a lot of excess capacity out there. We believe that putting some competition into the Medicare traditional program could help increase efficiencies, just as it has in other parts of the private sector.

Mr. MCDERMOTT. Have you looked at the HCFA analysis of this premium support program?

Mr. CRIPPEN. I have not looked at it carefully.

Mr. MCDERMOTT. They made the assumption that there would be a 10-percent increase—a new copay in home health care and a 20-percent copay on other services. You didn't make any specific——

Mr. CRIPPEN. No.

Mr. MCDERMOTT [continuing]. Number assumptions?

Mr. CRIPPEN. We did not.

Mr. MCDERMOTT. You just made a sort of overall kind of a back-of-the-envelope guess because you didn't get specifics?

Mr. CRIPPEN. Yes, sir, in part. CBO cannot, as an institution—and I don't believe you can anywhere—make very long-term projections like this. These, as you know, are 75-year projections of very large programs with lots of people moving in and out. As I said in the cover letter, the longer we go out in our analysis, the more we are driven by the assumptions, not the facts.

So it is very important to lay out the assumptions, which is what I think we did in the attachments, but we cannot make any kind of detailed estimates the way the actuaries have attempted to at HCFA. We aren't in the business of doing that. We have ability to make forecasts over long periods of time, but, as I said, we are driven in the out-years by assumptions, not facts. Excuse me, I just wanted to finish.

Mr. MCDERMOTT. Sure.

Mr. CRIPPEN. Obviously, we can all debate the best way to think about these things, but I think the best way CBO can help is by suggesting some of the questions you might want to address to assess this policy. You can then ask whether this policy moves you into a better or worse position relative to that set of principles or questions. But to pretend that we have any precision 75 years from now—it would be nothing more than pretending.

Mr. McDERMOTT. You are saying that the assumptions you make in Social Security are of an order of magnitude somewhat greater of certainty than the ones you would make in Medicare?

Mr. CRIPPEN. I think that is probably correct.

Mr. McDERMOTT. Because you know population and you know salary trends and economic trends, etc.

Mr. CRIPPEN. Right. We are struggling with some very important questions—not only with us, but the actuaries in Social Security as well. Take mortality, for example. Much of the private literature suggests that the assumptions we are making about mortality are a little short; that is, people are going to live longer than we currently think. That is an assumption, but if it is true, then obviously it would have an effect on the projections for the Social Security trust fund.

Mr. McDERMOTT. What private literature are you talking about? You are talking private research or research literature?

Mr. CRIPPEN. Yes, research literature in the Academy of Actuaries and some private actuaries.

Mr. McDERMOTT. You say that the projections we are using actually are too short?

Mr. CRIPPEN. They could be a little bit too short. It is being debated at the moment. All I am saying is that in Social Security, while it is more straightforward, as you said, there are still some very important things that we have to assume.

Mr. McDERMOTT. I think we will have to continue this maybe at the next hearing.

Mr. CRIPPEN. I would like to.

Mr. McDERMOTT. Thank you.

Mr. CRIPPEN. We don't have to wait until then.

Mr. SMITH. I will proceed with 5 minutes. And I think, Mr. McDermott, that I would object to Mr. Crippen's response to you that the only way to have a tax cut would be to use Social Security surpluses. Of course, we are looking at corporate tax loopholes. We are looking at all other kinds of adjustments that could accommodate that, rather than using Social Security surpluses.

But in terms of the President's budget using those Social Security surpluses, do I understand you to say that the President's budget does use Social Security surpluses for some of his new expanded program spending?

Mr. CRIPPEN. Yes. The President's budget suggests that at least through 2008, we will be using—not saving all of—the Social Security surplus. According to our estimates, over a 10-year period, the President uses some portion of the Social Security surplus in every year.

Mr. SMITH. And, Mr. Spratt, I would like to inform to you and the chairman that our Social Security Task Force of this committee is meeting every week on Tuesdays at noon, and we have been sending out notices to the full committee.

Next week we will be talking to asset managers in terms of the effect of capital investments on the market if we were to move——

Mr. MARKEY. Mr. Smith, Mr. Smith. The recorder over here tells me your microphone is not on.

Mr. SMITH. Thank you.

Mr. CHAMBLISS. We can all hear you though.

Mr. SMITH. Just a quick report on the task force. Last week, for example, we had Steve Goss, one of the actuaries. And it was interesting that our committee staff had projected that every cent, both Social Security surplus and any general fund surplus over the next 5 years, if every penny was put into an investment at 10½ percent, and if the 700-plus billion dollars were paid back that is in IOUs in the trust fund now, how long would Social Security stay solvent, and the estimate was approximately 2040.

And another question I thought was interesting was if we decided to put an additional $3.5 trillion of bonds in the trust fund this year, would the actuaries at the Social Security Administration score that to keep Social Security solvent for the next 75 years? And the answer was yes. Is that really a realistic way of scoring and giving guidance to the Congress on Social Security if they are simply going to say that an additional IOU will keep the program solvent?

Mr. CRIPPEN. That is why we have a unified budget, why we have to look at the Social Security and non-Social Security together. The trustees have only one thing to look at: they look at the Social Security trust fund. And, indeed, if we transfer general funds through there and leave behind nonmarketable securities, as you are suggesting, they have to look at those and say that they are securities that are backed by the full faith and credit of the government. They will be cashed in when the time comes. But that ignores what is happening with the rest of the budget. So from the trustees' point of view, it is realistic and——

Mr. SMITH. More than that, I think it probably ignores the consequences of not having a long-term solution. It ignores the consequences of not being able to come up with money when we run short someplace between 2008 and 2013.

Mr. CRIPPEN. It has real consequences, as you are suggesting, and what you are suggesting are political or social consequences. But it does inherently commit future general funds to Social Security, because those bonds are going to be redeemed using general funds. And in the President's calculations, his transfer is about enough to solve half the long-term problem—1 percent of the 2 percent of payroll we talked about earlier—but there is no reason that, using the same techniques, you couldn't solve the whole problem.

Mr. SMITH. That was the question. We said what if we add $3.5 trillion, which is the actuarial debt on an open system.

Mr. CRIPPEN. Right.

Mr. SMITH. It would seem that somehow there has to be a better way to guide this Congress in terms of the seriousness of the problem. And if you look at what happened in 1970 and in 1983 under the Greenspan Commission, when we ran into problems of having enough money, we reduced benefits and increased taxes. And so the full faith and credit is only as good as Congress' decision and the White House's decision to not reduce benefits or increase taxes.

So it seems to me that in terms of guiding this body, it would be better to concentrate on the predicament that we are going to face at a time when there is less money coming than what is being spent.

Mr. CRIPPEN. As I suggested in my opening remarks, it is less important exactly how we account for these things; it is more important to think about what we are doing. If the President's budget was adopted, we would be committing future general funds to the Social Security System. That may be perfectly acceptable—I am not saying it is not—but that is what we are doing.

So the accounting matters less than the implications. Do you want to start putting more general funds into the Social Security system, or do you want to try and keep it self-funded through payroll taxes and match the obligations with the payroll taxes?

Mr. SMITH. Well, let me finish in my last few seconds on the Budget Committee's Task Force on Social Security. The week following next week on March 23, Mr. Greenspan has agreed to come in to a working session or a closed session where we could have a free discussion back and forth on some of the issues that we are facing in Social Security. And so, again, I invite the full Budget Committee to that hearing.

Mr. Price for 5 minutes.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Crippen, I would like to—or, Dr. Crippen, I would like to add my congratulations on your appointment and welcome you for your first appearance before this committee. We look forward to working with you.

Mr. CRIPPEN. Thank you. I look forward to working with you as well.

Mr. PRICE. I would like you to elaborate on the reasons of the differences between CBO's estimate of discretionary spending in the 2000 budget and OMB's estimate. That, of course, goes to the heart of the caps problem, which a number of people have referred to here today.

Let me just anticipate, I know part of the difference is going to be accounted for by the fact that the administration did not always specify in the budget that it expected the Appropriations Committee to enact its mandatory program offsets. So, of course, one related question is whether you agree that Congress could write the legislation in that way, and if the offsets were enacted through the appropriations bills, then they would legitimately accommodate increases within the caps, and that would no doubt change your estimates as to the amount of discretionary—the net discretionary spending we are dealing with here.

Mr. CRIPPEN. That is right. We would give them credit for those offsets if they appeared in the appropriation language. It is about, as I recall, a little under $5 billion of the $17 billion that we talked about in offset differences. So that would be something like $5 billion of the 17.

Mr. PRICE. That would be—you say 17. I had understood it was more a $13 billion difference.

Mr. CRIPPEN. It is $17 billion total: $3 billion of it is PAYGO balances; the other $14 billion is mandatory savings that we wouldn't, under current scoring, count as offsets to discretionary spending.

What you are suggesting is right. If they had included in the appropriation language the enactment of some portion of that, we would have scored it differently, and they would have received credit for another $5 billion. So the $17 billion we talked about would have been $12 billion or $13 billion.

Mr. PRICE. So it is true, isn't it, that the historical precedents as to whose estimates Congress relies on is somewhat mixed. I believe that last year Congress adopted OMB's estimate rather than CBO's on several large items, including defense outlays, the veterans offsets, T-21 and vocational education. Is that true?

Mr. CRIPPEN. Yes. You can obviously adopt whatever estimates you want. We, of course, stand by ours and are willing to defend them in any quarter, but you have the ability to do whatever you want. In the resolution, you can adopt different economic assumptions. You can do lots of things, sir.

Mr. PRICE. Going to the issue of those Pay-Go offsets, on the issue of whether revenues can or cannot be used to offset discretionary spending and how that might be done, isn't it true that in the Contract With America budget resolution of 1995, and in last year's House budget resolution, that the House Republican leadership did propose cutting taxes and offsetting the revenue loss with cuts to discretionary spending?

Mr. CRIPPEN. I have to refer to my colleagues. That is historical. I will take your assertion for the moment, and we will look at it. It sounds like it was not quite the same as what Jim was telling me, but I am not sure I understand it well enough to try and have an exchange with you.

Mr. PRICE. Well, I think it would actually be quite helpful for the record if you would give a more detailed response.

Mr. CRIPPEN. Absolutely, sure. I wasn't there then, and I don't know what they did.

Mr. PRICE. And hopefully a balanced response as to how that could be argued on either side, if you do find some conflicting evidence.

Mr. CRIPPEN. Sure.

[The information referred to follows:]

CONGRESSIONAL BUDGET OFFICE RESPONSES TO QUESTIONS POSED BY REPRESENTATIVE DAVID E. PRICE

Question 1. Please explain CBO's estimate that discretionary spending for fiscal year 2000 requested in the President's budget request would exceed CBO's capped baseline in light of the Administration's estimate that the budget complies with the discretionary spending limits of the Deficit Control Act.

There are three components to the difference between CBO's estimate that proposed discretionary outlays would exceed CBO's baseline cap on discretionary spending by $33 billion and the Administration's estimate that the President's budget complies with the discretionary spending limits.

1. CBO's baseline cap on discretionary outlays for 2000 does not include adjustments that would be required under current law if the President's proposals were enacted. CBO estimates that such adjustments—which would be triggered by appropriations for emergencies and appropriations for special purposes such as continuing disability reviews of Supplemental Security Income recipients—total almost $3 billion. Thus, CBO estimates that the discretionary spending proposed in the President's budget would exceed the caps, including adjustments that would be made at the end of the session of Congress, by $30 billion.

2. CBO estimates that the outlays resulting from the President's discretionary appropriation requests will be nearly $14 billion higher than the Administration estimates. Almost $10 billion of the difference in estimates of discretionary outlays is attributable to CBO's higher estimate of outlays for defense programs, and about $4 billion is attributable to reestimates of spending for nondefense programs. CBO's March 3, 1999, report, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2000: A Preliminary Report," describes the major components of those differences (see pages 12-15).

3. The President's budget proposes offsets to discretionary spending that would require a change in law to be counted as offsets. The proposed offsets, as estimated by CBO, are:

- Savings of $2 billion in direct spending programs that would be enacted in authorizing legislation. Under current law, savings in direct spending count as offsets to discretionary spending only if they are enacted in appropriation acts.
- A $1 billion increase in offsetting receipts of the Military Retirement Trust Fund resulting from changes in military retirement benefits. Under current law, such increases are not counted as savings in either direct or discretionary spending because the increase in receipts reflects the increase in the long-term liabilities of the trust fund.
- An $11 billion increase in revenues that would be enacted in bills other than appropriation acts. CBO believes that current law does not allow revenue changes to be counted as offsets to discretionary spending under any circumstance, although the Administration has counted them as offsets if they are enacted in an appropriation act.
- The elimination of the current $3 billion pay-as-you-go balance for fiscal year 2000. Under current law, eliminating the balance would not count as either direct or discretionary spending because it does not directly affect budget authority or outlays.

The Administration estimates that these items would offset $18 billion in discretionary outlays. Under current law, CBO estimates that they would not offset discretionary spending at all. Under the assumption that the law is changed to allow these items to count as offsets, CBO estimates the offsets would total $17 billion and that net discretionary spending proposed by the President would exceed the adjusted Deficit Control Act limits on outlays by $14 billion.

Question 2. Is the Administration's proposal to count certain savings as offsets to discretionary spending any different from proposals supported by the House of Representatives in recent years that would have allowed reductions in discretionary spending to offset reductions in revenues?

The House of Representatives in 1995 passed legislation (section 20008 of H.R. 2491 and section 1009 of H.R. 1215) that would have required counting a legislated reduction in the Deficit Control Act limits on discretionary outlays as a decrease in the deficit for purposes of pay-as-you-go enforcement. That would have allowed reductions in the discretionary limits to offset the pay-as-you-go effects of a tax cut or increases in direct spending.

The President's budget for fiscal year 2000 proposes that the items discussed in the answer above—direct spending savings and revenue increases achieved in authorizing legislation, increases in offsetting receipts of the Military Retirement Trust Fund, and elimination of the pay-as-you-go balances—should be counted as offsets to discretionary spending for purposes of determining compliance with the limits.

Both proposals would allow trade-offs between discretionary spending and revenues, and both would make it easier to make trade-offs between discretionary spending and changes in direct spending (the President's proposal would also allow certain items that currently do not count as any kind of savings to be used as offsets to discretionary spending). However, the mechanisms for making the trade-offs are different. H.R. 2491 and H.R. 1215 would require an explicit reduction in the discretionary limits to accomplish the trade-off. The President's proposal would allow changes in revenues and mandatory spending to count as offsets that would allow additional discretionary spending without formally raising the discretionary limits.

Mr. PRICE. Well, regardless of the disagreement with OMB on discretionary spending, your testimony does indicate, does it not, that CBO believes that the surplus over the 5 years will be higher under the President's budget actually than OMB predicts?

Mr. CRIPPEN. Yes. We believe the baseline surpluses are considerably more than what OMB starts from.

Mr. PRICE. So specifically CBO estimates that the President's overall policies, including the Social Security framework, will produce $516 billion in surplus over the 5 years, while OMB expects only $465 billion; is that true?

Mr. CRIPPEN. Yes, but we would expect considerably more without the President's policies.

Mr. PRICE. Now, just going back to that discrepancy between the estimates of discretionary spending, how much of that goes to the differences in estimated spendout rates for defense; that is a major chunk of it as well?

Mr. CRIPPEN. About $6 billion of the total is spendout rates, primarily on prior-year obligations. The other $4 billion, just to round up to $10 billion, is things that the administration thinks will save money but that we don't believe will save money.

Mr. PRICE. All right. So we have some genuine scoring differences there?

Mr. CRIPPEN. Yes.

Mr. PRICE. We also have the differences attributable to the way you score the possible offsets that might be enacted through appropriations bills?

Mr. CRIPPEN. Yes.

Mr. PRICE. All right. Well, I think it would also be helpful for the record if you could give a precise breakdown——

Mr. CRIPPEN. Sure. The two things you just mentioned——

Mr. PRICE [continuing]. Of the components that we discussed here this morning. And that, secondly, what accounts for those differences, and if you care to add commentary as to how that might be—how that difference might be narrowed depending on how these offsets are enacted, that would also be helpful.

Mr. CRIPPEN. We have had an exercise under way for a number of years to try and narrow our differences with OMB, particularly on defense outlays. About 10 years ago, we had fairly significant differences. That difference, because of lots of discussions with OMB, had actually narrowed to about a billion dollars a year, but the difference has been building. Last year the difference was about $5.7 billion, as I recall. This year it is $10 billion.

So in the last couple of years we have again had these really disparate estimates of outlays for defense. In the old days, we had big differences. Those went almost to nothing with a lot of discussion. But in the last couple of years, it would appear that OMB has reverted to its bad ways. No, no. We have increased our differences with OMB.

Mr. PRICE. All right. My time has expired. Thank you, Mr. Chairman.

Mr. CHAMBLISS [presiding]. Ms. Clayton, I don't want to rush you. Do you want to go ahead and ask your questions, or vote and come back?

Mrs. CLAYTON. Actually I can do it in less than 5 minutes.

Mr. CHAMBLISS. OK.

Mrs. CLAYTON. I just want to kind of have you summarize your differences and the assumptions for Social Security. My assumption is that you do not subscribe to the President's assertion that transferring 62 percent into the trust fund would be helpful or would make the savings that would be there.

Mr. CRIPPEN. Well, what we say is that the transfer has no real effect on the program. It will extend the trust fund balances, as he asserts, from 2032 to 2055 or something like that, but it doesn't change the obligations or the revenues associated with it. Now, the transfer does have a real effect, I think, in that it commits future general fund resources to Social Security. At some point, those

Treasury securities will have to be cashed in using other, non-Social Security resources—taxes, debt, or something else—and so the general funds will be committed to the Social Security system. So it has a real effect.

But there are two pieces to the question. One is: How do we account for it? And the President asked that we account for it differently than we do now, and that is one issue. And as I am suggesting here, the accounting issues are less important than the policy issues, and one policy issue is the implications of using general funds for Social Security. I am not suggesting that that is a good or bad thing to do. All I am saying is that it is the more important issue.

Mrs. CLAYTON. That is a different issue from saying that if you transfer, whether it is good or bad, it is a neutral issue; that adding to the solvency of Social Security trust fund, if you put those dollars in there, does it not add to the solvency or extend the trust fund solvency by the number of years that you assert it?

Mr. CRIPPEN. Yes, it does extend the trust fund's solvency, but it doesn't change the program at all. What it does is commit future general fund revenues to it.

Mrs. CLAYTON. I think further reforms may be things that this Congress will do. So you would say that actually transferring those funds to the trust fund adds to the solvency of the Social Security?

Mr. CRIPPEN. It extends the solvency, yes.

Mrs. CLAYTON. OK. One last question is, I wasn't clear when you said that—in your testimony that your overall projection for surplus was less than the administration, but did I just hear you say the reverse?

Mr. CRIPPEN. I may have contradicted myself. I hope not. What we are saying essentially is that we believe that if you did nothing for the next 10 years, surpluses would be a little higher than the President projected if he did nothing for the next 10 years. So our baseline surplus is a little bit higher than the President's.

But the point is that his budget does not save the entire surplus. Whether it is his surplus or our estimate of the surplus, not all of it is saved, and I think that is the important part.

Mrs. CLAYTON. I am reading from your testimony on page 8, it says, "However, because CBO's economic and technical assumptions produce higher projected baseline surpluses than the administration projects under the current law"——

Mr. CRIPPEN. That's right.

Mrs. CLAYTON. You are saying if he did nothing, we will have more?

Mr. CRIPPEN. Yes.

Mrs. CLAYTON. But the baseline—are you saying his baseline is erroneous, or because his policies—he is spending more of it?

Mr. CRIPPEN. No. We think that if no action was taken by you or the President over the next few years, surpluses would be a little higher than what the President believes they would be if nothing was done. So we start out with a little bigger surplus, then when we subtract what the President is proposing to do with the surplus, and we end up with a final number that is still a little bit bigger than what the President thinks.

Mrs. CLAYTON. Is there a surplus for this year?

Mr. CRIPPEN. Yes.

Mrs. CLAYTON. Is there? To Mr. McDermott I thought you said it was no. For year 2000 I guess is what I should say, rather than this year.

Mr. CRIPPEN. Right.

Mrs. CLAYTON. Is there an on-line surplus?

Mr. CRIPPEN. On-budget? No.

Mrs. CLAYTON. Is there an on-budget surplus for 2000?

Mr. CRIPPEN. No.

Mrs. CLAYTON. But there is overall increase in the baseline budget for the next 5 years, greater than what the President has said. So when he says he wants 62 percent of an imaginary number, that imaginary number, from your point of view, is lower than what you have as a baseline?

Mr. CRIPPEN. Yes, that would be right.

Mrs. CLAYTON. Because he wants to use some of surplus to commit it to the trust fund, you are saying that that would put the deficit at a higher rate than the debt would be? Is that what I understand?

Mr. CRIPPEN. No, the transfers do not count in this calculation. We don't count the transfers.

Mrs. CLAYTON. It is a neutral?

Mr. CRIPPEN. It is a neutral. It is a wash for this purpose.

Mrs. CLAYTON. Thank you.

Mr. SPRATT. Mr. Chairman, if I could just state two things for the record for clarification. When you spoke of the CBO baseline for defense, that baseline that is included is an extrapolation of fiscal year 1998 spending for defense, which included $8 billion in emergency spending, which is not requested this year, so it is an inflated baseline in that sense——

Mr. CRIPPEN. Yes.

Mr. SPRATT [continuing]. Nonrecurring item included?

Secondly, just for the record, if I am wrong, you may not have the numbers readily available, but by our calculations the President's budget request from 2000 to 2009 averages 3 percent per year rate of increase, versus .7 percent rate of increase for nondefense discretionary. That is in outlays, which is the important number.

Mr. CRIPPEN. OK. We have——

Mr. SPRATT. We got a mismatch between BA and outlays which is longstanding. The longer we put off rectifying it, the worse it gets. Thank you very much.

Mr. CRIPPEN. Thank you.

Mr. CHAMBLISS. Dr. Crippen, thank you very much for being here this morning, and we look forward to working with you, and we particularly look forward to getting those intermittent reports on where you think we are headed with respect to whether it is surplus or excess cash flow or whatever it may be. But we look forward to getting those written reports from you. Thank you very much.

Mr. CRIPPEN. Thank you.

[Whereupon, at 12:05 p.m., the committee was adjourned.]